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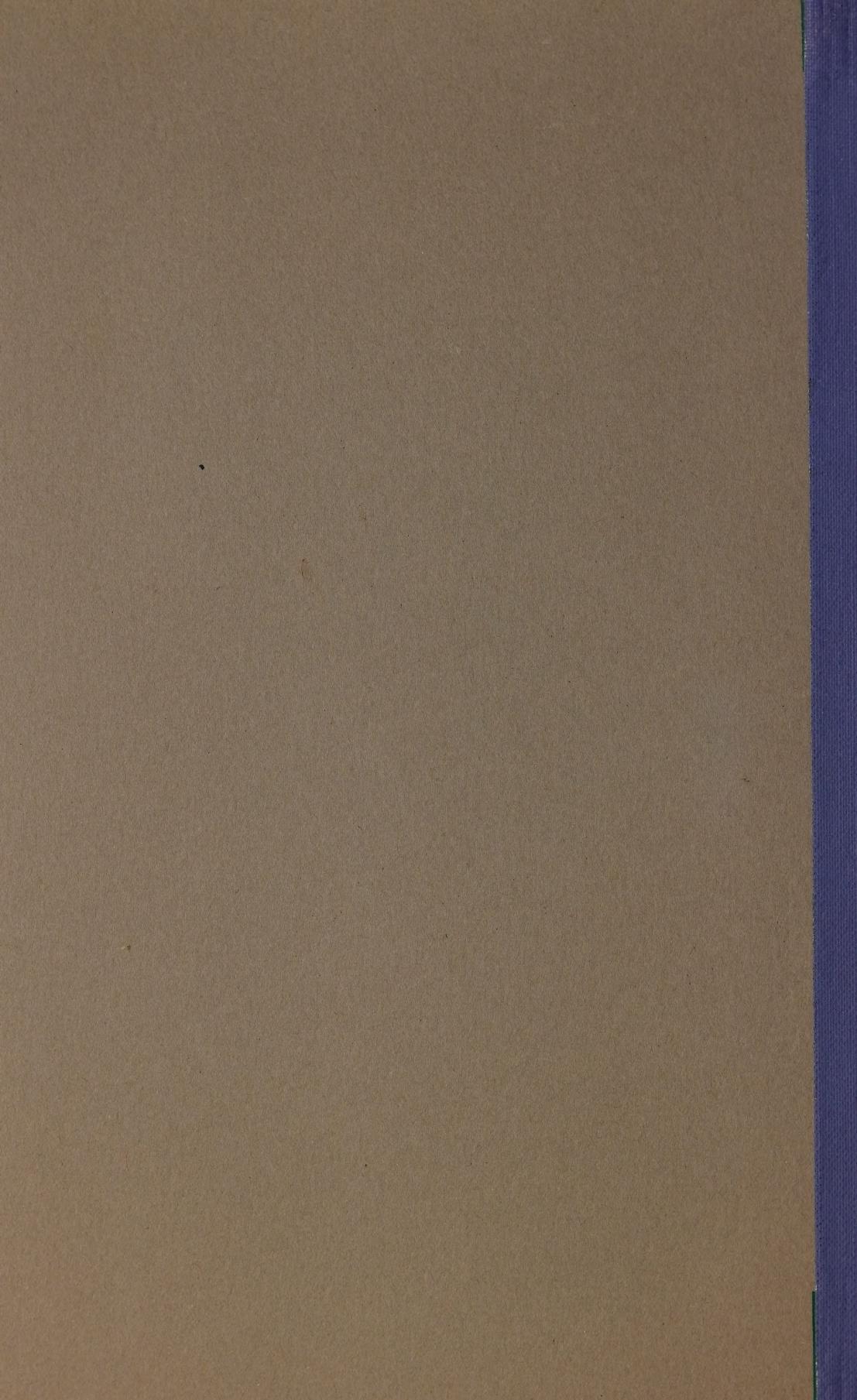
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CORRESPONDENCE

AND

Government
Publications

NEGOTIATIONS

CONNECTED WITH THE AFFAIRS OF

NOVA SCOTIA.

Laid before Parliament by command of His Excellency
the Governor General.



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(PRIVATE.)

OTTAWA, October 6th, 1868.

MY DEAR MR. HOWE.—Now that the Legislature of Nova Scotia has been prorogued, and the exciting discussions on Constitutional questions for a time ended, I think the time has come when I can again ask your aid and influence in endeavouring to allay the feeling that unhappily exists in Nova Scotia, and to give the Union Act a fair trial.

For that purpose, I desire to repeat, shortly, the material portions of the Statement that the Committee of the Convention, of which you were Chairman, were kind enough to allow Sir George Cartier and myself to make.

In the first place I will say, on behalf of the late Province of Canada, that in the question of Union we acted in good faith. The Delegations from the several Provinces were appointed by their respective Governments, and we had reason to believe that the Governments of Nova Scotia and New Brunswick as fully represented their people as the Canadian Government did.

I regret extremely the present unfortunate state of affairs, and my colleagues and myself are prepared to do all that we can to put an end to it.

By the Despatch of the Duke of Buckingham to Lord Monck, of the 4th June last, in answer to the Address of your House of Assembly, the Governor General and his advisers are precluded from even entering upon the consideration of the repeal of the Act of Union.

His Grace declares that the measure is not only conducive to the strength and welfare of the Provinces concerned, but *important to the interests of the whole Empire*, and states that the Queen's Government feel that they would not be warranted in advising the reversal of this great measure of State.

He, however, draws the attention of Lord Monck and his Government to the points raised in the Address relative to taxation, the regulation of Trade and the Fisheries: and he expresses a confidence (which I am sure is well founded) that it will be the care and wish of that Government and of the Parliament of the Dominion, to relax or modify any arrangements on those subjects which may prejudice the peculiar interests of Nova Scotia and the Maritime portion of the Dominion.

On this point I can only repeat what I stated before the Committee, that the Canadian Government is not only ready but anxious to enter upon a frank and full discussion of those points and are prepared, in case the pressure of taxation should be shewn to be unequal, or unjust to Nova Scotia, to relieve that pressure by every means in their power. They are also

ready to discuss any Financial or Commercial questions that may be raised by the Nova Scotian Government or yourself, and the representatives of Nova Scotia in the Parliament of the Dominion.

You may remember that I suggested to the Committee that Mr. Annand, the Finance Minister of the Province, or any other gentlemen selected for the purpose, should visit Ottawa and sit down with the Finance Minister here, for the purpose of ascertaining whether any inequality or injustice exists, the extent of such inequality and the best remedy. And I now reiterate the assurance I then gave, that the Government here will consider the question not in a rigid, but in the most liberal spirit, with a desire to do even more than justice for the sake of securing the co-operation of the people of Nova Scotia in working the new Constitution. We will enter upon this enquiry whenever it suits your convenience, and the Canadian Government engage to press upon Parliament, with all the influence they possess, the legislation required to carry out any financial readjustment that may be agreed upon.

I am aware that even if the Union Act were accepted objections are taken by leading politicians in Nova Scotia to some of its constitutional (and non financial) provisions.

Now the Constitution is a new one, and to a considerable degree experimental, but it seems to me that it should have a fair trial, before we pronounce it so defective as to call for immediate alteration—still, that is altogether a matter of opinion.

The proper, indeed the only place for discussing any such changes is in the Parliament of the Dominion, and the able men who represent Nova Scotia will have full opportunity of pressing their views in their places there.

It is so obviously the interest of the Government and Parliament of the Dominion that the Union should work satisfactorily, that the Nova Scotian representatives may rest well assured of every suggestion of theirs being fully considered. Meanwhile, I would desire to impress upon you the great injury that is caused to the material interests of Nova Scotia by its not being fully represented in the Government of the Dominion, and by the position of isolation assumed by yourself and your co-representatives in the Parliament here. Questions of the greatest importance in the administration of affairs are continually arising, in which Nova Scotia should have a potential voice—and I may instance the rights of our Fishermen, the subject of Reciprocity and other matters of almost equal importance.

The Canadian Government, I see by the anti-Union papers, are charged with an unwise administration of public affairs, so far as Nova Scotia is concerned. All that I can say is, that we act according to the best information that we can obtain, and that if mistakes are made the fault is not ours.

I have already invited you to give us your aid and advice as a Minister, and regret extremely that you do not see your way to taking that position.

I trust that you may be able to do so—the sooner, the better. Meanwhile, why do you, and those who act with you, not pursue a course similar to that of O'Connell? He was sincerely desirous of effecting the repeal of the union between England and Ireland, and, as you know, spared no effort for that purpose. But he did not stand aloof in Parliament. On the contrary, while preserving his opinions as to repeal, he gave a general support to the administration of the day, and thereby secured for himself a potential voice in the administration of Irish affairs. At present matters stand thus:—The Canadian Government must either act without advice from Nova Scotia, (which is of course inadvisable) or consult with those who, it is stated, have not the confidence of the majority of the people, which continues the irritation now existing.

Let me urge upon you to put an end to this unfortunate state of things. In the hope that this might soon be the case, the Canadian Government has, as much as possible without injury to the public service, postponed filling up the more important offices connected with Nova Scotia, and will continue to do so, although these delays are made causes of attack upon us for neglect of our duties.

I write with the approbation and concurrence of my colleagues, and this letter, although marked "private," and not to be used as an official document, can be shown by you to any friends that you think proper.

Believe me, &c., &c.,

(Signed,) _____

JOHN A. MACDONALD.

The Hon. Joseph Howe,
Halifax, Nova Scotia.

(Copy.)

HALIFAX, 21st October, 1868.

MY DEAR SIR JOHN.—Your letter of the 6th inst.. reached me a few days ago. I at once informed Mr. Annand of its arrival, but did not ask him to read it, or to compromise himself or his colleagues by taking part in the Correspondence. The Members of the Local Government and Legislature have already, as you are aware, re-asserted their determination to obtain the Repeal of the British North America Act and have sent forward their Resolutions and Minute of Council. They are hopeful that the new Parliament will do to Nova Scotia more substantial justice than the old, and when the Elections are over, may despatch another Petition and Delegation to England. Heartily desiring, as I do, the Repeal of the Act, I must confess that I am less sanguine. I used to believe that in a case involving vested interests, Constitutional rights, and great sums of money, British Statesmen and Legislators would do justice though the Heavens should fall. With deep sorrow and a sense of humiliation not easily described, I now am compelled to acknowledge that I have cherished a delusion.

Whether it be that the British Ministers yield to the representations of the Governor General and to the paramount influence of Canada, or sincerely believe that the interests of the Empire are in some mysterious way, which I cannot discover, bound up with this Confederation; or whether, as I shrewdly suspect, the men who represent the Railway and Financial interests to be affected by this measure, dominate and control both Houses, I apprehend that unless some marvellous change is wrought by the new Constituencies, we shall have as little chance of obtaining justice from the new Parliament as we had from the last.

My friends here are more hopeful, and I shall be delighted, should they make a fresh appeal, to find that I have been mistaken.

A new House of Commons may take a more enlightened view of the subject, but Mr. Gladstone, who will be the leader, if the Liberals win, has twice spoken and voted against us. As matters stand, then, we have not a very cheerful outlook, nor are the remedies, which are now freely talked of all over this once loyal Province, pleasant to contemplate. I have for months set my face steadily against revolutionary movements, annexation intrigues, or open resistance to the law, but I will not disguise from you, that it may be very difficult to stem the tide of public opinion that a rejection of enquiry by a new Parliament may set in motion, unless in the meantime some large and substantial measure of reparation and justice is offered by the Government of the Dominion.

Holding these opinions and foreseeing the dangers to be encountered, I am content to take the risk of this correspondence, of which I am quite aware that persons more sanguine of success will entirely disapprove.

I have shown your letter to a few judicious friends here, and shall show it to others, including, of course, the Members of the House of Commons as they come up to town; and I intend to make no secret of the fact that such a Correspondence is going on. I am asked every day if I have taken office, or "accepted the situation," as the phrase goes. My answer is that I have accepted nothing, but recognizing the obligation imposed by the Imperial upon the Canadian Government, I mean to discuss the whole subject with them in a frank and earnest manner. Some of my friends here are apprehensive that the fact of such a correspondence going on, will weaken their chance of getting Repeal from the new House of Commons. If I thought so I would break it off to-morrow, but, as it must close long before the time arrives for making that appeal I am content to continue it, is the belief that no harm and some good will arise out of a free interchange of our opinions.

Whether we remain united, or ultimately separate, it is of the utmost consequence that the feelings of exasperation which recent events provoked among the people of British America, should be allayed. The arrogant, petulant and hasty manner in which this measure was, from the first, forced upon our people, aroused their passions. The visit of the Canadian Ministers here was the first movement in the right direction, and in your letter of the 6th inst., I recognize a spirit of fairness which I am prompt to acknowledge.

From the first we were much alarmed by the Financial aspects of the scheme, your assurance that these shall be revised and substantial justice done is very satisfactory. Mr. Annand cannot go to Ottawa, somebody else may, but as the distance is great, we may be able to arrive at common conclusions by a simpler method. Mr. McLelan has already sent to Mr.

Rose the substance of a speech which he delivered in the House of Commons last session. Enclosed you will find copies of a speech made by Mr Annand.

Glancing over those papers you will perceive that, if not confederated, Nova Scotia could have met all her obligations, and, under her old tariff, have had a small surplus in the Treasury. That by imposing one per cent upon imports, we could have raised money enough to keep up our roads and bridges, now left almost without any provision, though our tariff has been raised to fifteen per cent, and sundry direct taxes have been imposed. It appears to me that the claim for \$3,000,000 on account of our public works is a fair one, to say nothing of another based upon the disproportion of our annual consumption per head, and that of your people. I do not wish to trouble you with many figures, or to involve you in financial discussions which can be more easily conducted by others, but I may observe that we ought not to be charged interest on \$622,458 of Province Notes circulated and sustained for years on the public credit. Will you be good enough to ask Mr. Rose or Mr. Langton to examine Mr. Annand's speech and Mr. McLelan's figures, and inform me if the calculations are accurate or to what extent they agree with them. If there is a per contra side to the account let it be sent down.

As this letter is already so long, I may perhaps trouble you with another, on the constitutional aspects of the question. I quite recognize the narrow limits to which you are confined by the Duke of Buckingham's despatch, but we both know that the colonial office would sanction, and Parliament approve of any changes which experience might suggest, and I would rather discuss these with you in a friendly way now, because I fear that without the approval of the Government, I would have but a small chance to win favor for them in the House of Commons.

I note what you say in reference to my taking office, and to the example of O'Connell. My position is certainly not a very profitable, or a very enviable one, but I prefer to hold it just now. I have been driven into it by a sense of duty and by the force of circumstances which I could not control. The responsibilities resting on me are not light, and I can only relieve myself of them, by maintaining for the present a position of personal independence.

As regards the present Government of the Dominion I did not last winter factiously oppose them. Should I go to Ottawa again, (reserving the question of Repeal, if that is a chance in our favor) my action would be governed by yours. If you do justice I will give you credit for it.

The choice of the route for the Intercolonial Railroad meets my entire approval, and if you can place our commercial relations with the United States on a satisfactory footing, either by treaty or reciprocal legislation, and arrange the financial aspects of the question equitably I think I may safely say that the gentlemen who may go from Nova Scotia to Ottawa, would be justified in giving a fair support to your Government.

Believe me,

My dear Sir John,

Yours very truly,

(Signed,) _____

JOSEPH HOWE.

Sir John A. Macdonald.
&c., &c. &c.

LONDONDERRY, N. S., September 17, 1868.

HON. JOHN ROSE,
Minister of Finance Ottawa, }

DEAR SIR.—The speech to which you so kindly refer, was not reported, but I will state as briefly as possible some of the financial grounds on which I object to Confederation.

1st. Because Nova Scotia imports more dutiable goods per head of the population than any other Province named in the Act of Confederation.

The imports into Nova Scotia for home consumption, say in 1867,* were \$39.50 per head. The same year into Canada, after deducting coin and bullion, Military Stores, &c.,

* Error in figures; should have been 1866, the returns for 1867 not having been published in Nova Scotia.

not included in imports in Nova Scotia, they were only \$20.00. Hence applying one tariff over all, the amount collected per head in Nova Scotia will greatly exceed that in Canada.

Circumstances will occasionally vary this. An abundant grain crop in Canada, with high prices, will increase the funds at the disposal of your people for the purchase of imported goods, whilst a failure of the Fisheries, and of the Mining and Shipbuilding interests in Nova Scotia, will diminish ours. I made, some time ago, a comparison of the income available for the purchase of goods of the two Provinces from the Exports in five of the principal branches of industry for the year of the last Census, viz :

Branches of Industry.	Value in Canada.	Per Head. Pop. 2,507,647	Value in N. S.	Per Head. Pop. 330,857.
	Pop. 2,507,647		Pop. 330,857.	
Agriculture.....	\$14,259,225	\$5.66	\$786,526	2.37
Mines	558,306	22	658,257	1.98
Sea.....	833,646	33	3,094,449	9.35
Forest.....	11,012,363	4.36	767,136	2.31
Shipbuilding, 1863.....	3,000,000	1.19	2,000,000	6.06
		11.76		22.07

Giving to each Nova Scotian twenty-two dollars and seven cents, and to each Canadian only eleven dollars and seventy-six cents; the difference, I apprehend, will be found equally great in subsequent years, until the abrogation of the Reciprocity Treaty with the United States. You may safely assume, as a rule, that our people, mainly engaged in Fishing, Mining and Shipbuilding, will import more largely than yours, differing so much in geographical position, occupation and habits. As Confederation gives Free Trade with Canada in manufactured goods, part of our wants will be supplied there, but in many cases at as high a cost to the consumer as if imported elsewhere under a ten per cent tariff, the only benefit being to the Canadian Manufacturer.

2ndly. Because it increases our Tariff and Taxes.

Considerable discussion has taken place respecting the extent of this increase, and the necessity for it, supposing the Confederation Act had not passed.

You will see, however, that no matter to what extent the Tariff may be increased under the Act, and supplemented by Stamp Taxes, all we are released from is the difference in the interest we paid the year previous to Confederation, and the interest on eight millions, which, counting Provincial paper and Savings Bank, will be \$121,213 and cost of management, say \$5,000 more, now whilst only relieving us from this you increase the Tariff largely, impose new taxes, and also reduce our average sum for local services over \$200,000, as I shall presently show.

You will say that we have our section of Intercolonial, from Truro to the border, built, true, but the present rate of duty does not provide for that service, and either you must depend upon a further increase, or the natural increase of revenue by the time expenditures are made, which we could have calculated upon ourselves.

We had the road under contract for a subsidy of \$120,000 a year, for twenty years, equal to a permanent tax of, say \$80,000. So that all we have for the increase of Tariff, Stamp Tax, Newspaper Postage, and the growth of the country and its natural increase of revenue, is difference in interest on eight millions (part Provincial paper), and amount (*paid*) in 1866, which is.....\$121,213

Cost of Exchange and Management.....	5,000
For Subsidy to Road from Truro to Amherst.....	80,000
	\$206,213
Less amount Confederation reduces our local grant.....	202,000
Leaving only.....	\$4,213

A sum so insignificantly small that you cannot be surprised that we are unwilling to submit to it.

3rdly. On account of the arrangement of debt.

The Act bases the amount of debt given to each Province on the population, allowing Canada \$62,500,000 or \$24.92 per head; New Brunswick seven millions, or \$27.77 per head; and Nova Scotia 8 millions, or \$24.17 per head, placing Nova Scotia 75 cents per head under Canada, or, for her population, in all \$248,142, and a very much greater sum below New Brunswick—a departure from this basis of adjustment to the loss of Nova Scotia. You may have, at the Quebec adjustment, estimated the population by the rate of increase previous to the last Census, but I am quite certain that, with the discovery of gold, the great increase in Coal Mining and all other branches of industry in Nova Scotia from 1860 to 1866, her population increased as rapidly as in any other Province.

Population alone, however, is not sufficient as a basis, a consideration should be had to the income,—to the revenue.

Taking the income from Customs and Excise in 1863, the year just preceding the adjustment of the Quebec scheme, and allowing Nova Scotia eight millions debt, Canada should only have..... \$54,475,000

1865.....	53,163,000
1866.....	59,200,000

This is without making any allowance for an increase of Tariff to Nova Scotia.

Taking an average of Revenue, and allowing for the increase of tariff, the debt allowed Canada should not have exceeded \$50,000, or if $62\frac{1}{2}$ were allowed her, ours should have been 10 millions at least. There is also a difference, and we claim an injustice done us, in the value and amount of the assets supposed to offset the debt of each Province. Your total liability is shown by your returns of 1867 to be \$88,444,890. This you propose to reduce to \$71,200,000, which will take \$17,244,890 of the best of your assets; then Ontario and Quebec having to assume \$8,700,000, they have, in Schedule 4th to the Act, assigned to them \$12,046,888, leaving to offset \$62,500,000 but \$58,153,122.

Then of this balance, over 30 millions yield no return whatever, and the remainder only about three-fourths per cent. In the assets yielding this return you have enumerated harbor-piers, light-houses and roads and bridges; total \$4,442,295.

Now, we have as many light-houses as you; we have every year expended large sums in improving harbors, building piers and breakwaters, and in the last ten years we have expended by Government \$1,603,000 on our roads and bridges, so that we have in assets of that class an amount equal to you, which, calculating by the difference in population, fully offsets all yours yielding any revenue: That is, we have public property outside of that, representing our debt equal by population to all of yours yielding a return, leaving our railways and some other public property in your hands without an equivalent.

When we commenced the construction of railways our debt was only \$678,835. Those works, with some public buildings, brought it up to nearly nine millions, exclusive of the "right of way" paid by the Counties through which the railways pass. In assuming eight millions of this debt you have, as we claim, taken our railways and many other public works, without giving a return. It may be said that our railways have not paid interest, but you should bear in mind that the connections to furnish traffic are only being completed. The fifty-two miles to Pictou runs into an inexhaustible coal region, taps the trade of the Gulf and will facilitate intercourse with Canada. The branch to Windsor, 35 miles, connects with the Windsor and Annapolis Railway, now building under subsidy from us, which, when finished, must add largely to your receipts; and then the main line from Halifax to Truro, 62 miles, will form so much of the Intercolonial, and be as good to you as the sum it cost to build, as the Act declare that you must connect Halifax and the Gulf of St. Lawrence. Had we left this section of the Intercolonial to be built by the Dominion Government, the cost of construction placed at the credit of Nova Scotia, would greatly assist the Local Government in meeting calls upon it. Should you take the section of road building from Moncton to Nova Scotia, lines under subsidy from the New Brunswick Government, you will most probably return the subsidy, or a great portion of it, to New Brunswick, and thereby reduce her indebtedness.

Our claim to a return of the cost of the section of Intercolonial, 62 miles, rests on as strong grounds as theirs, but we hold we have a right to the returns of all our railways, you

not giving, in Dominion property, an equivalent. There is another consideration worth mentioning here; after it was known that the Confederation Act would pass the Imperial Parliament, we gave a subsidy of \$1,103,000 to extend the railway from Windsor to Annapolis, which will largely help to make the Government 45 miles from Windsor to Halifax paying property. This might have been left; its claim upon the Dominion for aid was stronger than any public undertaking except the Intercolonial, which we shall have in Nova Scotia for a very long period. Whilst you have railways to extend, canals to build and others to enlarge, requiring almost unlimited sums, and considering your power in the Dominion Parliament, it is not exceeding probability to say you will provide for them as soon as possible. Last Session you cancelled some three or four millions for votes of old Canada, and among them a million for defence, stating that as the money was undrawn, you would provide for the services when needful, out of Dominion funds. Had we not some claim to have a liability such as this, unexpended and undrawn, treated in a similar manner? It is however, left upon our shoulders, reducing by \$55,000 the sum allowed us for local services. Another financial objection, and the one which bears heaviest with many, is the want of a sufficient sum for local services. The people of this Province have always been accustomed to have most of their local public services provided for out of the general revenue. There is a perfect network of roads, with thousands of bridges, all over the Province unobstructed by toll gates and mainly kept up by public grants, as also many other local services.

As soon as it was demonstrated that the sum for local services would be very much less under Confederation than we had been accustomed to, and that those services would have to be sustained by direct taxation, the hostility to Confederation was largely increased. But your people were shown that Confederation would give them an increase of local funds, and no doubt it largely influenced their assent.

The amount of our annual local expenditure has been from five to nine hundred thousand dollars, say an average of \$658,000.

Mr. Galt gives them average of your local expenditure previous to Confederation, \$2,021,979, but note how largely it is increased. The assets in schedule 4th, exceeding by \$3,346,888 the debts assumed, gives a balance of income, after paying interest of.....\$ 89,761

Subsidy, 80 cents per head and \$150,000.....	2,156,121
Local revenue, as given by Mr. Galt	1,297,043

\$3,542,925

Making an increase for local purposes under Confederation of.....	\$1,520,946
---	-------------

Mr. Galt however, placed the local revenue much lower than the estimates shown by the Finance Ministers of Ontario and Quebec, viz :

Ontario.....	\$2,077,267
Quebec.....	1,754,333

Total for local services.....	\$3,831,600
-------------------------------	-------------

Being nearly double the amount of the average grant previous to Confederation. With us it is just the reverse, instead of having an average expenditure for local purposes of.....\$658,000

We have Sudsyid and Bonus	\$324,000
Local Revenue.....	132,000 456,000

Deficiency.....	\$202,000
-----------------	-----------

It is true that a larger sum than this has been appropriated this year, but it is from arrears belonging to the year previous, which are not ordinary revenue, and should have been appropriated to the reduction of the debt of the period to which it belonged. The tendency of all governments is to expend all moneys passing through their hands, rather than pay off debt. I am quite sure that you will say that it was well that it was done in this case, for had our Local Government confined their appropriations to the net sum Confederation gives, and provided by Bill, as they must do eventually, for raising by taxation on the Counties the balance required to sustain local services, you would in less than six months see Nova Scotia out of the Confederation, or only conciliated by British bayonets,

But to return to the Local Revenues, you will see that the case stands thus : Canada gains by Confederation \$1,520,946, or by latest estimates nearly \$2,000,000, whilst Nova Scotia loses over \$200,000. It is therefore not surprising that the people of Canada assented to Confederation, but it would have been surprising, other things being equal, had the people of Nova Scotia consented to it. It is with peoples as with individuals, they feel more keenly the loss of those benefits they have long enjoyed than the failure to secure new ones.

That Nova Scotia did not consent to the Act of Confederation, that she struggles to be released from it, is mainly because she believes it takes away her old, long enjoyed and valued possessions without returning an equivalent. The people feel that they are called upon to give up a large portion of the sum from which they have hitherto sustained their local services, and whilst unwilling to do this, they ask what concessions are the people of Canada making for Confederation, and when you fail to shew that it is an act of mutual concessions—when you cannot place your finger upon a single right or privilege, or dollar of money, that you concede, they naturally and determinedly rebel against a surrender of at least one-third their average allowance for local purposes.

It is BURKE, I believe, who says very truly, that "all good governments, indeed every human benefit and enjoyment—every virtue and every prudent act—is founded on compromise and barter," and until you are able to demonstrate to our people that the surrender of so great a part of their local expenditure, is the exchange given for some equally valuable concession by Canada, you must not hope to conciliate Nova Scotia.

It is claimed by your friends here that your expenditures in Nova Scotia during the past year have exceeded your income. I have not the means at hand to investigate this ; but suppose it is so, you must not forget that this is with Nova Scotia an entirely exceptional year. Trade is almost suspended and importations greatly reduced, and it is not improbable that it may also be exceptional in the liberality of your expenditure.

You should also bear in mind that three-fourths of the importations from foreign countries were under the old tariff, whilst in the whole year, from Canada, they were free of duty.

If it be that the expenditure for the whole Dominion has exceeded the whole income, you will not of course use any deficit there may be in Nova Scotia to the prejudice of our case.

But supposing you continue to expend more than your receipts in Nova Scotia, even under the higher Tariff, our people will be slow to believe that the fault is in Nova Scotia, but rather attribute it to the more expensive system of management attendant upon Confederation. It was not the fault of Pharaoh's well-favored kine that they did not improve the condition of the seven that devoured them.

The question with our people is not so much whether Canada is better or worse for the connection, as it is what effect has it upon Nova Scotia ! And, when another year shows the answer plain and unmistakable, that our annual appropriation, which was felt in every section and by-road of the Province, as you will see by reference to the road scales in our journals, is suddenly withdrawn, and the only mode of replacing it is by direct taxation upon the districts, the hostility to Confederation will assume a more active and urgent form than it has hitherto. No matter what may be said to the contrary, I affirm that all through the contest, the feelings of the people have been in advance of the politicians, and the universal desire was for the Local Legislature to take a stronger and bolder line of action.

But having decided to repeat constitutional means, it was well that they supplemented the expenditure by so large an appropriation belonging to the period anterior to Confederation, as, should we in the meantime obtain our reasonable request, and be permitted quietly to return to our old political position, the sense of wrong and the bitterness it engenders will not, I trust, have sunk too deep into the hearts of the people to be removed.

In thus confining myself to that part of our case referred to in your letter, you must not suppose that it is solely on financial grounds that we object to the Union Act. It is unnecessary to refer to others at present, and I only hope that what I have said may assist you to the conclusion that we are justified in opposing Confederation.

I have the honor to be,

Yours truly,

(Signed) A. W. McLELAN.

FINANCIAL REPORT ON NOVA SCOTIA.

(Strictly Confidential.)

MY LORD.—In compliance with Your Lordship's request, I have now the honor to submit the result of the investigations into the financial position of Nova Scotia, as affected by the Union.

The primary object of the enquiry was to ascertain whether the burdens on the people of Nova Scotia are greater now, than they would have been had no Union taken place, and subsidiarily to contrast the position of that Province with the other sections of the Dominion, in order to see whether the Financial arrangements, as settled by the Union Act, operate any relative injustice towards them.

I have felt that these investigations, to be of any value, ought to be conducted with judicial impartiality, and that all the facts must rest on the basis of official returns.

Having personally had no participation in settling the Financial provisions of the Union, I was able to enter on the enquiry without any preconceived impressions of the justice or otherwise of these provisions.

I have also endeavored to obtain an accurate comprehension of the main causes of complaint, and to weigh them fairly.

It would serve no good purpose to encumber this report with special allusion to all the different minute points of objection which have been taken against the arrangements, or to review the arguments by which it is sought to prove the adverse effect of each separate feature in the scheme on Nova Scotia.

These were presented in the course of the first Session by one of the ablest Members from the Province of Nova Scotia, and were repeated by the Provincial Treasurer in a debate in the Legislative Council in the month of September last.

I have been favored with an epitome of them by these gentlemen, and while it will be seen that the points they have raised have been fully considered, and are remarked on in detail in the Schedules attached to this communication, I have thought it better to confine my report to the general results, rather than complicate it by attempts to discuss the justice or otherwise of each individual item in the accounts.

Great difficulty has arisen from the imperfect, and in some cases, inaccurate character of the returns, to which reference had to be made; and while I believe the general results cannot be seriously affected, I ought not to withhold the expression of my doubts of the perfect reliability of the only data available.

I desire specially to guard myself against being precluded from modifying the conclusions I now convey, should I have evidence hereafter of the erroneous character of these data. I ought also to say that the ultimate practical effect of the fiscal changes on Nova Scotia, cannot for the present be other than conjectural, because in the first place the changes created in the character of the Trade are already very great; in the second, the statistics shew, and that but imperfectly, what those changes have been only up to July last; and in the third place it is obvious both as a matter of reason and in the light of the experience we already have, that the ultimate and permanent effect cannot be ascertained at the threshold of the Union.

While it was obviously desirable that the questions to be determined should be as few and simple as possible, it was equally so that the results should be tested in a variety of ways, and that all the data on which these results depend, should be submitted for reference.

The leading principles on which the financial arrangements in the Union Act seem to have been based, were to allow each Province to enter the Union with a certain amount of debt per head of the population, as assumed at the time of the Union, according to an estimated percentage of increase since the last Census in 1861; to pay each Province an annual subsidy of so much per head on the population as ascertained by the Census, and on any excess of debt which either might be found to owe, to charge interest at the rate of 5 per cent, deducting the amount from the annual subsidy.

Certain public works belonging to each Province were transferred to the Dominion, while certain others were reserved as Provincial property.

I.—OBJECTIONS BY NOVA SCOTIA.

Nova Scotia however disputes the justice of these rules, when practically applied to her circumstances, contending *firstly*, that population should not have been admitted as the sole basis, either of establishing the debt or payment of the subsidy, but that the extent of previous contribution by each Province to the revenue should also have been considered; that even if the basis of population were just, the estimate of the numbers is unfair to Nova Scotia, because the percentage of assumed increase to her numbers since the census of 1861 is less than allowed to Ontario and Quebec, and below what it should have been: *secondly*, that Ontario and Quebec, forming the old Province of Canada, possessed productive assets, which were retained by them as their own property; that these assets represented their debt per head, and being apportioned between them, brought in revenues that not only prevented their being affected by the stipulated deduction for any excess of debt, but were actually available as sources of additional income beyond the amount contributed by the Dominion Treasury; that Nova Scotia possessed no corresponding class of assets, or if she did, that they were by the Union Act taken possession of by the Dominion. She further contends that apart from these considerations of relative injustice, the practical effect on her has been that whereas her Tariff on Imports from which nearly the entire revenue was derived, and which was the only burden on the people, was on an average less than ten per cent ad valorem, it has now been raised upwards of 15 per cent; and that there have been superadded: 1st. Duties of Excise; 2nd. A Stamp Tax; 3rd. A tax on Bank circulation, and 4th. Additional Postage on Newspapers.

The hardship resulting from the nominal increase in Customs, is, as is urged by Nova Scotia, further aggravated by the fact, that whereas her products chiefly consisted of Ships, Lumber, Fish and Coal, she had to dispose of these abroad, and consequently had to import nearly all her articles of consumption from foreign Countries; thus causing her population to pay a higher sum per head in duties than the people of any of the other Provinces; that therefore the increased duty in Customs is one which peculiarly effects her exceptional position, and that the nominal percentage of increase does not represent the real addition to the burdens on her people.

It is further urged that notwithstanding this increase on her burdens, the total amount to be received by her from the Dominion Treasury, and from the Provincial sources of Revenue and the Assets reserved to her, fall far short of what she formerly had, and are less indeed than is necessary to carry on the Government, and provide for the local services which the new Constitution has assigned to her.

A variety of other objections have been urged from time to time in detail against the financial provisions of the Union, but I think they are comprehended in those I have stated, viz:—

1st. That the principle of allowing each province so much debt per head, and, paying each a subsidy per head, ignoring the tax paying element, operates practical injustice to Nova Scotia in the circumstances in which she stood, and that even that principle, supposing it to have been just, has been unfairly applied.

2nd. That in the appropriation by the Dominion of Public Works situate in Nova Scotia, as well as of her local assets, and the reservation to Ontario and Quebec of revenue yielding properties and works, there is relative injustice to Nova Scotia.

3rd. That Nova Scotia is not only subjected to increased taxation, but that the principles on which that taxation is imposed operate with special injustice to her; and

4th. It is asserted that if there had been no Union, and Nova Scotia had raised her Tariff to the extent since done by the Dominion Parliament, it would have produced sufficient to have met her increased liabilities, provided for her local services, and left a surplus beyond; whereas as is contended notwithstanding that increase the revenues left at her disposal are inadequate to meet the services she has customarily provided for.

2.—OBJECT AND EFFECT OF ACCOMPANYING STATEMENTS.

The statements which accompany this Report have been prepared with a view of ascertaining how far the calculations,—on which these various grounds of complaint rest,—are supported by facts.

It would be beyond the limit of my duty to offer any further comment on these statements, than is necessary to point out to Your Lordship what they may or may not establish, and in what respect I believe they ought to be taken with reserve.

It is however proper to state that the gentlemen engaged in the preparation of them were instructed, as the various features affecting the results came up, to deal with them all, not with the aim of endeavoring to prove the equity of the existing arrangements, but rather in a spirit of critical examination with the view of discovering in what way the several incidents might possibly be unfair to Nova Scotia. That duty I believe has been faithfully performed.

It will be convenient first to advert to those points which would seem to admit of little reasonable doubt; and (bearing more especially on the 3rd and 4th grounds of complaint) they are :—

a. That there was an increase in the taxation imposed on Nova Scotia after the Union.

b. That that increase was chiefly in Customs Duties.

c. That previous to the Union, Nova Scotia received considerably more per head of imported goods both dutiable and free than the rest of Canada and paid more per head of duty on imports.

The statement I (Appendix I), shews that the value per head of Total Imports for the last five years was :—

	Canada.	Nova Scotia.	New Brunswick.
1864.....	\$17.07	\$34.25	\$35.49
1865.....	15.89	39.55	28.05
1866	19.38	39.37	39.68
1867.....	20.99	34.52	30.03
1868.....	21.59	23.28	22.90

That the value of dutiable goods per head during the same period in Nova Scotia and Canada, (the returns for New Brunswick being incomplete) was :—

	Canada.	Nova Scotia.
1864.....	\$11.41	\$21.42
1865.....	10.09	21.42
1866	13.27	28.05
1867.....	14.25	22.33
1868.....	13.88	18.83

That the duty paid per head was :

	Canada.	Nova Scotia.	New Brunswick.
1864.....	\$2.44	\$2.92	\$3.67
1865.....	2.26	3.14	2.83
1866	2.92	3.76	4.11
1867.....	2.80	3.32	4.17
1868.....	2.84	3.21	3.27

It is however to be remarked *first*, that the Estimates of the years previous to the Union are based on a higher rate of duty than that which existed in Canada at the time of the Union, inasmuch as the Tariff on unenumerated articles was reduced in the session immediately preceding the Union from the ad-valorem rate of 20, to that of 15 per cent; while many articles formerly paying 10 per cent in Canada were made free; and *secondly*, that the rate since the Union is only an estimate, and probably an imperfect one, inasmuch as there have been two changes in the Tariff, one in December, 1867, and another in April, 1868, and that the latter change had special reference to articles consumed in Nova Scotia, such as breadstuffs, ship-building materials, etc. from nearly all of which the duties formerly existing

were entirely removed, while the tonnage dues on Shipping formerly imposed by her have also been repealed. The returns are not yet all complete, and this statement is to be regarded as approximate only.

That there was a sensible reduction however in the percentage of Customs, is proved by the fact that the returns of the first nine months subsequent to the Union shew an average reduction in Customs on the value of dutiable goods of three per cent, as compared with the rate in Canada previous to the Union, and on analysis of the Tables (Statement J.) of Imports into Nova Scotia will show that a large proportion of the articles which formerly paid duty are produced in Canada and will now be available free to the consumer in Nova Scotia. Keeping these considerations in view as affecting the comparison of the figures of former years, my further observations of their effect as bearing on objections Nos. 3 and 4 will be found in a subsequent portion of this report.

3.—DIVISION OF DEBTS AND ASSETS.

The objections taken to the appropriation, and the division of the assets and local Revenues among the various Provinces, and by which it is alleged the interests of Nova Scotia were injuriously affected, have a necessary bearing on the fairness or otherwise of the principle stated in the first ground of complaint, viz: that an equal *per capita* assumption of debt and payment of subsidy, works unfairly to that Province, which, as is averred, paid more in Customs, had no sources of local Revenue, and to which no allowance was made for the Public Works of which the Dominion denuded it.

It will therefore be convenient to consider these two objections together.

Your Lordship will see that it was not unnatural that misconception on this point should exist in Nova Scotia, even among the best informed of the Public Men, since they derived their information wholly from the published accounts of Canada, and could not be expected to be aware that many of the items in those accounts represented liabilities on the one side, and assets on the other which were purely nominal but which were brought forward from year to year for Book-keeping reasons only.

Ascertaining the strength of this misconception I caused the communications already alluded to in which these points in the case of Nova Scotia are strongly dwelt upon, and all others within my reach in which any facts that seemed to call for explanation were stated, to be referred to the Auditor General, and in Paragraphs II to V inclusive of his Report will be found clear and exhaustive explanations shewing the extent to which the adjustment of the debts and the apportionment of the Local Assets affect each Province.

This statement is specially valuable because in it the Auditor General summarises all the objections taken by Nova Scotia, and furnishes such answer to each as the real state of the facts warrants. It will be seen from that statement that the true debt of Canada is not, as is supposed, \$88,000,000, but only \$72,000,000, and that there has been no appropriation of any assets by Canada to effect the reduction from the former nominal to the latter true figure.

It is believed that this explanation of the true amount of debt will be satisfactory, and supposing, as Nova Scotia desires, that the element not of population alone but of contribution to the revenue as well, ought to have been considered in settling a basis for the amount of debt which should be allowed to Nova Scotia, it is obvious that the contribution of Canada, in the way of excise as well as customs, should be taken into account.

Adopting this view and taking the average of $3\frac{1}{2}$ years anterior to confederation, Nova Scotia would have been entitled to \$303,000 more of debt than is allowed her. But if the revenue derived by both Provinces from all sources be considered it would only have been \$130,000 more. The calculations made by the Auditor General in paragraph III., would seem to bear out these results.

As to the actual character and distribution of the assets, I would call your Lordships' attention to paragraphs IV & V. in the Auditor's report which will serve to elucidate the more general terms of my observations.

4.—LOCAL REVENUES RESERVED TO ONTARIO AND QUEBEC

It will be seen that the chief sources of local revenue and the productive assets apportioned to Ontario and Quebec consist of :—

a. Crown Lands and the arrears of money due on them.

b. Certain funds, such as the Upper Canada Building Fund, Common School, and other Educational Funds, &c.

The funds enumerated under (*b*) undoubtedly yield a considerable revenue, but this cardinal point is to be kept in view in weighing the advantage which the payments on account of them confer on Ontario and Quebec, viz : that they constitute in great part the excess of debt over the \$62½ millions allowed to Canada, and that though the interests on them is paid by the Dominion to certain persons and public bodies in Ontario and Quebec, yet an equivalent amount is deducted from the subsidy payable to these Provinces on the excess of debt.

In other words the excess of debt is mainly created by these trust accumulations ; and it would be the same to Ontario and Quebec if they were not paid these revenues, since they would in that case receive the amount by way of subsidy, which is now deducted to meet the interest on this excess of debt payable to themselves.

They are not a distinct source of revenue over and above the subsidy, but what Ontario and Quebec receive on these trust moneys they lose on the subsidy.

Thus the total debt of Ontario and Quebec is estimated at about \$72,500,000 the excess on which interest has to be paid being \$10,000,000 or \$500,000 per annum ; while the interest payable on trust account to Ontario and Quebec is \$312,630 per annum.

The Crown Lands and arrears due on them cannot, however, be regarded in the same light. True, Nova Scotia retains her lands as well, but it is asserted that they are of less relative value.

In order to show what the total revenues of each Province, as well from Dominion as from local sources will be, a statement has been prepared which it is believed approximates nearly to the actual fact. That statement (Appendix No. III) is based on the receipts of the last three years and on the assumption that in Ontario and Quebec, of the undistributed Crown Lands revenues, $\frac{2}{3}$ belong to Ontario and $\frac{1}{3}$ to Quebec. It shews the following results :—no deduction being made for excess of debt of any of the Provinces.

Revenues from all sources, Dominion as well as Provincial, per head

in Ontario.....	\$1.69	per head.
Do New Brunswick.....	1.65	"
Do Quebec.....	1.62	"
Do Nova Scotia.....	1.36	"

This statement, it will be perceived, includes the Revenue from the various local taxes as well, such as from Law Proceedings, Marriage licenses, &c., &c., and which as they are imposed and paid by the people themselves in the several Provinces, can hardly be regarded as Revenue producing assets distributed by the Union Act, though the power to continue to raise them is conferred on the several Provinces. If that power were not exercised the local Revenues would be so much less.

This, however, being matter of argument, and there being several kinds of Provincial Revenue derived from local sources which do not all stand on the same footing, and with respect to which an honest difference of opinion might exist, I have caused a further statement to be prepared shewing the results on all the hypotheses which can arise.

The one which would seem most fairly to embrace the real justice of the case, is that which, after deducting the interest on the estimated excess of Debt and the Revenue from purely local taxation, gives the following results :

Net Revenue per head Ontario.....	\$1.40
Quebec.....	1.28
Nova Scotia.....	1.19
New Brunswick.....	1.46

If the hypothesis contained in this statement be adopted the total Revenue of Nova Scotia, estimating her population at 330,857, would be \$69,480 less than if she had the same

per head as Ontario. Reference is made in connection with this statement to paragraph X of the Auditor's Report.

5.—RAILWAYS AND PUBLIC WORKS.

It is objected moreover that the Dominion has appropriated the railways belonging to Nova Scotia, and that as Canada has no railways, and made no corresponding contribution to the Dominion, the cost to Nova Scotia of these works should either not have been included as part of her debt, or else she should have been allowed to retain the roads as her own property.

The answer to this argument it is believed will be found in the following facts :—

1st. That Canada having adopted a different system from Nova Scotia, viz : that of making advances to Companies to build Railways instead of building them herself, Canada brings into the Union and gives it the benefit of more mileage of Railways in proportion to the population and debt incurred, than Nova Scotia does, viz : 1 mile to every 1274 souls, at a cost to the public of \$10.77 per head, whereas Nova Scotia brings in but one mile for every 2279 souls at a cost of \$19.04 per head.

If the Canals and other Public Works of Canada yielding Revenue are included, as it would seem but right they should, it will be found that the charge for Public Works per head is in Canada \$18.61 whereas in Nova Scotia it is \$19.04.

2nd. Canada makes a direct contribution of Railway property, not it is true in the work s themselves, but in what is more valuable, in securities bearing a first charge on productive Roads, and which securities Nova Scotia and New Brunswick claim shall become the absolute property of the Dominion without any allowance to Ontario or Quebec in reduction of their debt for what may be realized from these claims, viz. :

- A. Due by Great Western Company. A good asset..... \$ 3,731,395
- B. Due by Northern Company. A good asset..... \$ 274,310
- C. Due by Grand Trunk Company. A good asset..... \$ 243,406
- D. Other claims which are not now, but may hereafter become valuable, viz : the advancees to the Grand Trunk Railway and Northern Railway, of the nominal sum exclusive of interest of \$17,454,300

The whole question of the Railway property which has formed the subject of anxious and unprejudiced consideration, will be found fully discussed in paragraphs 6, 7 and 8, of the Auditor's report.

6.—FINANCIAL POSITION OF NOVA SCOTIA AS A SEPARATE PROVINCE.

Having adverted to those features in the Union Act apportioning the Property and Assets which may be supposed to be adverse to Nova Scotia, it is now proper to notice the position she would have occupied alone, and to consider whether there is more drawn from her than the Union has to pay for her ; and whether she has been left sufficient Local revenues for her Provincial wants.

From the statements noted below, it may be assumed as certain :

(a) That the debt of Nova Scotia was steadily augmenting ;—(App. 1, Statements A. B. C.)

(b) That in each of the three years preceding the Union there was, besides the augmentation of her debt, an increasing deficit between revenue and expenditure, Statements D. and G.)

(c) That if there had been no Union, or if Nova Scotia were now to go out of the Union, she must provide for that deficit to the extent of from \$300,000 to \$400,000 a year at least. (Statement L.)

Statement A shews that her debt augmented, and the increased charge for interest, were as follows :

1864, Debt,	\$4,846,146	Interest	1864,	\$183,776	Surplus	1864,	\$68,427
1865, "	5,176,185	"	1865,	278,875	Deficit	1865,	52,491
1866, "	6,032,016	"	1866,	309,145	"	1866,	176,820
1867, "	8,026,117	"	1867,	382,306	"	1867,	332,790
1868, "	9,288,121	"	1868,	506,787	"	1868,	359,087

This statement it is believed rests on official data, and attention is called to the abstracts referred to in it, by which its accuracy would seem to be satisfactorily proved. It is also to be noted that it rests on the assumption that notwithstanding the annual deficit and the increase in her debt, she could have obtained the new Loans she needed at the same rate of interest as before. This she could hardly have done, for I find that on the last operation she attempted in 1865, the Financial agents report their inability to effect a sale of Nova Scotia Bonds, while after the Union, and charged on the Revenues of the Dominion, these same Bonds were readily disposed of at par.

The important questions raised by the Provincial Treasurer of Nova Scotia as bearing on the position of the Province had she remained separate, have been stated logically and clearly. He states :

1st. That had Nova Scotia stood alone and adopted the Dominion Taxation there would have been a surplus of \$223,282.

2nd. That had she put 1 per cent on her old tariff and reduced certain items on her expenditure which he considers might have been effected, she would have had a surplus of \$187,568 applicable to her road and bridge service.

3rd. That by the exercise of further economy she might have left her old scale of taxation in force, and she would have had \$67,541 available for Roads and Bridges.

The data however on which his conclusions rest are, it is believed, inaccurate in some of the details, and altogether fallacious in principle. He adopts as his basis of computation, the revenue and expenditure of the years 1862-3-4-5 and 6. But this essential fallacy underlies his argument, viz: That the expenditure in Nova Scotia had not got to its normal state until after the year at which his comparison stops. The point of expenditure which Nova Scotia had actually reached is susceptible of positive demonstration and ought not to be dependent on a comparative estimate with former years.

I have caused an analysis of his figures to be made, and even assuming his estimate of revenue to be accurate, which it is believed is in excess of the fact, the result shews :

1st. That the real expenditure is understated by \$596,584.

2nd. That instead of there being a surplus, if the Dominion Tariff had been adopted by Nova Scotia alone, of \$223,282, there would still have been a deficit of \$373,302 which she must have made good in some other way.

A full reply to the propositions of Mr. Annand will be found in Appendix II.

7.—EFFECT OF UNION ON FINANCIAL POSITION.

Having thus adverted to the position which it is believed Nova Scotia would have occupied alone, I proceed to consider whether the Dominion has drawn more from, than it has paid on her account.

It appears by statement E that whereas there was received from her in the first year of the Union as ordinary Dominion revenue \$1,504,910, there was paid on her account as ordinary Dominion Expenditure, \$1,173,178, or including subsidy \$1,506,759.

But in this statement no charge is made against Nova Scotia for her proportion of the cost of the General Government, which divided according to population, would be about \$117,043, making an excess of Dominion outlay beyond Dominion receipts of \$118,892, or withholding the interest on the excess of debt a net excess of \$100,563.

The total receipts in Nova Scotia as well from the taxation of the Dominion as from the sources of Revenue reserved to herself were \$1,738,733, whereas the total payments made by her, and on her account, were on ordinary services \$2,097,821 exclusive of \$845,569, which was advanced for Public Works or on capital account,—shewing a gross excess of payments over receipts of \$1,204,657.

It is true that a large amount of this is on capital account, but the strain to provide for

it would have been a serious one had she stood alone; for after deducting all that could be chargeable to capital there would have been a deficiency of \$359,087 and this notwithstanding that the Dominion Tariff was in operation for seven months of the year. To this sum must be added certain items (Statement L) on account of debt which would increase the ordinary deficit on the year to \$390,840. Had Nova Scotia remained under her old Tariff, the deficit would have been greater and would have required a further loan over and above what she might have contracted for her new works exceeding 34 per cent on the customs duties of the year.

8.—LOCAL REVENUES AND EXPENDITURE UNDER UNION.

Next as to the question of Local Revenue and Expenditure—

The great items of local expenditure in Nova Scotia are for Education and Road Service, and the diminution of these as they affect every locality and individual, is calculated to create a dissatisfaction which the large outlay, now provided for by the Dominion on heavy works in particular localities, does not counterbalance.

It will be seen (Statement F. Appendix I) that the average expenditure for the 3½ years ending June 1867, on local services, has been \$766,569, while the average income from the sources reserved to Nova Scotia to meet those services is but \$161,331, which adding the gross subsidy would be \$494,912, leaving a deficit of \$271,657 to be supplied by direct taxation.

In the year ending June 1868, the local revenue (including the subsidy without deduction for excess of debt) was \$567,405, while her total expenditure was \$924,643, or excluding a payment in reduction of debt \$868,293, thus shewing a deficit on ordinary account of \$300,898; or including this payment, \$357,238.

For the calendar year ending December 1869, the estimate as furnished by the Local Government, and including arrears, is, Revenue \$456,000, Expenditure \$663,960, shewing an estimated deficiency of \$207,960. In this estimate the only items which would appear to be capable of any important reductions are—For Education \$165,000, Roads and Bridges \$240,000, and Local works \$50,000.

I have no accurate means of estimating whether the cost of Civil Government, &c., in Nova Scotia, be reasonable, but judging from the estimates in the other Provinces it may not be considered as excessive. Thus in New Brunswick the estimate per head is 28½ cents, in Quebec 37½ cents, and in Ontario 17¾ cents, while in Nova Scotia it is 26¾ cents.

The large additional burdens which beyond doubt Nova Scotia must have imposed on her people had the Union not taken place, are now supposed by them to be due to the Union, and the political discontent is aggravated because, simultaneously with these new burdens, there is a diminution in the class of Local Expenditure, which previous to the Union was borne by the Public Exchequer in Nova Scotia, but which is provided for by local taxation in Ontario and Quebec, and which if incurred by Nova Scotia, must be met hereafter in the same way. The only alternative open to her in the future would seem to be either, *first*, wholly to dispense with or greatly reduce these services, or *secondly*, to meet them as is done in Canada by direct taxation.

In order to compare the extent to which public grants for local purposes are supplemented by Municipal Taxation in the several Provinces, I have caused a table to be prepared, (Appendix IV) distinguishing as far as possible, the various services which are sustained by this united contribution. This statement, must, however, be regarded only as an approximate one, since it is based not on actual results, but on the estimated expenditure of the several Provinces, and the statistics shewing the Municipal Taxation are besides incomplete in some of these Provinces. It serves, nevertheless, to shew that the local contribution by Nova Scotia for Education does not contrast unfavorably with that of other Provinces.

The municipal or local supplement to the Parliamentary grants for Education, would appear to be as follows in the several Provinces, per head of the population:—Ontario \$1.13, Quebec \$0.77¾, New Brunswick \$0.41, Nova Scotia \$0.70, or if the estimates furnished on behalf of Nova Scotia for 1867 be correct \$1.07.

In respect of Public Works, however, a comparative immunity from Local Taxation

would appear to be enjoyed by Nova Scotia, the same table shewing that Ontario contributes for that service by Local Taxation \$2.17, Quebec \$0.74 $\frac{1}{4}$, New Brunswick \$0.44, and Nova Scotia but \$0.02 per head of the population.

It is unfortunate that the necessity for the introduction of a new system as regards their Public Works in Nova Scotia, should be contemporaneous with Confederation.

9.—CONCLUSION.

From the statements thus adverted to, it would seem to follow:

1st. That the principle on which the debts were arranged by the Union Act, operates with some unfairness to Nova Scotia;

2nd. That in the division of the property, local assets and revenues, or because the assets possessed by her were not of a character to be available, Nova Scotia is less favorably situated than the other Provinces in respect of local revenues;

3rd. That the increase of Customs presses more directly on Nova Scotia than the other Provinces, but this apparent increase and the consequent pressure, it is believed, will be mitigated every year, as goods which she formerly imported from abroad, and which were chargeable with duty, are produced in other portions of the Dominion, and will now be available to her for consumption free of duty.

4th. That she must have raised about \$400,000 annually by way of additional taxation if she were out of the Union.

5. That the amount raised by the Dominion from Revenue from Customs and otherwise is about adequate, if the results of last year continue in future the same, to meet all the current expenditure the Dominion is called on to make on her account, but less by \$100,563 if Nova Scotia is to be charged a *per capita* contribution to the cost of the Civil Government and Legislation of the Dominion.

6th. That the local sources of Revenue at present possessed by Nova Scotia are inadequate to carry on the services devolving on the Province.

It would be beyond my province to make any suggestion to your Lordship upon the state of facts which I find in my humble judgment to exist, and which I have endeavored to state as succinctly and accurately as it is in my power to do.

I have the honor to remain

Your Lordship's most obedient servant,

JOHN ROSE.

His Excellency

VISCOUNT MONCK,

The Governor General, &c., &c., &c.

MEMORANDUM ON MR. McLELAN'S LETTER.

MEMORANDUM on the Letter of Mr. McLelan, of September 17th, stating the Financial Disadvantages under which Nova Scotia labours from Confederation.

I have carefully considered Mr. McLelan's letter, have verified his figures, and I submit an examination of each of the points which he has raised.

1. He argues that the consumption of dutiable goods is much higher in Nova Scotia per head of the population than in Canada, and he states the relative proportions of the total imports in 1867, to have been \$39.50 per head in Nova Scotia, and \$20.00 in Canada. I append a table of the proportions from the best data I can obtain for four years, adding a column for New Brunswick.

Total imports per head :—

	Canada.	Nova Scotia.	New Brunswick.
1864.....	\$17.07	34.25	35.49
1865.....	15.89	39.55	28.05
1866.....	19.38	39.37	39.68
1867.....	20.99	34.52	30.03

Value of dutiable goods per head:—

1864.....	\$11.41	21.42	Not distinguishable in returns from New Brunswick.
1865.....	10.09	21.42	
1866.....	13.27	28.05	
1867.....	14.25	22.33	

Duty paid per head:—

1864.....	\$2.44	2.92	3.67
1865.....	2.26	3.14	2.83
1866.....	2.92	3.76	4.11
1867.....	2.80	3.32	4.17

Mr. McLelan's facts are therefore borne out by taking a more extended period, and the reason which he gives for the disproportion, viz., the different habits of an agricultural population, from those of one engaged in fishing, mining and shipbuilding, is no doubt to some extent correct. But the notoriously small consumption of dutiable articles in Lower Canada must materially reduce the general average of the whole of the late Province, and it is almost certain that the consumption of Ontario, if taken alone, although it is mainly agricultural, would equal that of the Maritime Provinces, if an accurate division could be made. Of the entire Customs Revenue of 1866-67, \$2,253,334.66 was collected in Upper Canada, and only \$559,279.57 in Lower Canada, exclusive of Montreal; the balance \$4,211,305.63 was received in Montreal itself, which supplies both Upper and Lower Canada. It may be some guide towards determining the taxable capacity of Ontario as compared with Quebec to state that the Municipal Taxes raised in the former in 1866 amounted to \$2,428,140, and in the latter to \$768,500, according to our somewhat imperfect returns, or say \$800,000. In this respect, therefore Nova Scotia only shares with Ontario and New Brunswick the disproportion in which it may have to contribute to the general expenditure.

In another view of the case, however, this disproportion has a further injurious effect upon Nova Scotia, because the average rates of duty paid by it heretofore have been considerably less than those in Canada. The following table will shew the percentage of duties in the several years, and I have taken this percentage upon the total imports, as well as upon dutiable articles alone, in order to include New Brunswick, in which the returns do not enable me to distinguish the dutiable from the free goods.

Percentage of Duties on value of goods imported:—

	Canada.			Nova Scotia.	New Brunswick.
	Total Imports.	Dutiable.	Total Imports.	Dutiable.	Total Imports.
1864.....	\$14.32	21.43	8.54	13.64	10.33
1865.....	14.21	22.38	7.95	14.68	10.09
1866.....	15.08	22.03	9.42	13.22	10.37
1867.....	13.34	19.64	9.63	14.88	13.75

Or, as the financial periods of the two Provinces did not correspond, we obtain a fair average by taking the total value of dutiable goods imported into Nova Scotia in the 45 months preceding Confederation, viz: \$28,996,018, and the total duties paid \$4,058,865, which gives an average percentage of 14.61, against the total \$108,649,061 imported into Canada in the 42 months preceding Confederation, yielding a duty of \$23,005,796 or 21.25 per cent. It must however be observed that the Canadian duties had been materially reduced upon many articles during the last year of the above period, and the proportions given for 1867 may perhaps more nearly represent those which existed when Confederation took effect.

It is evident, that if Nova Scotia is now called upon to pay the higher rate of duty prevalent in Canada upon its own higher rate of consumption, it will be a greater sufferer than is indicated by the different proportion in which it paid duty per head of the population as above given. But it would not be safe to base any calculation upon this assumption, for the rate at which it will be called upon to contribute under Confederation will be materially affected by three considerations. (1) Many articles formerly dutiable in Nova Scotia, as flour and meal, &c., are now free. (2) Goods, the manufacture of Canada, formerly dutiable, are now free. (3) Articles, which in Canada paid their contribution to the State under the excise laws, were represented in Nova Scotia by corresponding articles which paid customs duties. It is

difficult to estimate in figures the amount of effect which will be produced by these three considerations, but it cannot but make a material difference. The trade between Canada and the Maritime Provinces increased even before Confederation, from \$1,571,116 in 1865-6, to \$3,418,589 in 1866-7; and the reduction in the total imports into Nova Scotia, from \$8,565,647 in the nine months preceding Confederation, to \$5,781,699, in the nine months succeeding it, points in the same direction.

II. Mr. McLelan's second argument is that there is no corresponding advantage received to compensate for the increased taxation of Nova Scotia, and that there is no validity in the counter-argument, that, in consequence of the additional obligations incurred prior to Confederation, they would in any case have had to bear this increased charge. His position is that the only additional charge which would have fallen upon them, if Confederation had not taken effect, would have been the difference between the interest they paid the year before Confederation, and the interest on \$8,000,000, which he states to be \$121,213. He does not give the figures from which he arrives at this sum, and I am unable exactly to verify it, on account of the difference in the financial years; but it would appear to be at least approximately correct. If he counts 6 p. c. on the \$8,000,000, the balance as given by him would be equivalent to making the interest paid in the year \$358,787. Now the interest paid in the nine months ending June 30, 1867, was \$286,730, and adding $\frac{1}{2}$ of the interest paid in the preceding 12 months, or \$77,284, we get for the year \$364,014. Granting this, however, the \$5,000 which he allows for charges is manifestly insufficient. From the rate at which Nova Scotian Debentures have been sold in London, and from the difficulty experienced in disposing of the last issue, when we add commission and other charges, we cannot assume that they would have raised the money, including charges, for less than 7 p. cent. Correcting his figures therefore to this extent, the excess would be \$141,415. Moreover, he tacitly assumes that no account is to be taken of the \$1,300,000, by which the Nova Scotian debt is estimated to exceed \$8,000,000, because they have to pay the Dominion interest upon it. But they only pay the Dominion 5 p. cent, whereas they would have had to borrow at 7 p. cent, making a further difference of \$26,000. With these corrections however the argument may be admitted, and the financial gain to Nova Scotia from our assuming their obligations may be set down at \$167,415, together with the subsidy of \$333,581 per annum, to set against their increased taxation.

On the other hand it is argued that Nova Scotia will obtain the Intercolonial Railway by Confederation. Mr. McLelan however states, that they had already had an offer to make the road from Truro to the Province line for an annual subsidy of \$120,000 for 20 years, which he estimates as equal to \$80,000 of permanent addition to their annual charge. This has evidently been done approximately at 6 per cent, which would give 82,583, but it should not be estimated at less than 7 per cent which would give \$88,989. Now if we assume that the proceeds of the loan of £4,000,000, which costs the Dominion £170,000 in interest or \$850,000 Nova Scotian currency, will complete the road. Nova Scotia's share of this by population would be \$19,206, or rather more than they could themselves have built the road for as far as the Province line. But Mr. McLelan omits to consider that it is not the line to the Provincial border which is in question, but the connection with other lines; and they certainly would not have had the Intercolonial Railway, unless Confederation had gone into effect. It is an advantage which cannot be estimated in figures, but no Nova Scotian can be blind to the fact, that it must be an immense gain to the Province, and Halifax in particular to become the Atlantic terminus of a great system of Railways running far into the interior of the country.

III. Mr. McLelan objects to the principle upon which the debt with which each Province may come into the Union is to be regulated. The basis adopted, apparently the population by the last census, rectified to the date when the agreement was made, according to the relative average increase of each in the interval between that and the preceding census; and he argues that the development of the mining industry of Nova Scotia has probably largely increased its population beyond the average of previous years. He may be right in this respect, and it might have been fairer to take the last ascertained population without any hypothetical rectification, especially as the subsidies are based upon the actual and not upon the estimated population. The difference however is not very important. If the \$62,500,000 for Canada were taken as the basis, Nova Scotia would have had \$8,246,169 instead of \$8,000,000, and New Brunswick \$6,281,932 instead of \$7,000,000; or if Nova

Scotia had been fixed at \$8,000,000, Canada would have had \$60,634,240 and New Brunswick \$6,094,400.

I think however that Mr. McLelan is justified in saying that population alone is not a sufficient basis. As it is a question of debt to be assumed, the share which each contributes towards paying for that debt, if not made the whole basis, should at least have been taken into consideration. If we take the consumption of imported dutiable articles as the sole test, the difference would be very great; but it would be open to the same objections which I have already discussed when speaking of the increase of taxation.

The actual revenues derived from Customs and Excise together, which are taken by Mr. McLelan, would be a fairer test, and would give on the average of the last $3\frac{1}{2}$ years:

Canada.....	\$60,219,000 to Nova Scotia.....	\$ 8,000,000
Or Nova Scotia.....	8,303,000 to Canada.....	62,500,000

This is a very similar proportion to that resulting from the population, as it actually stood at the Census; but there may perhaps be some further allowance for the lower rates of duty in Nova Scotia.

If we do not confine ourselves to the revenues from Customs and Excise, but take the whole income into account, it is evident that we must omit the proceeds of Lands, Mines, &c., and other revenues, which now belong to the Local Governments, and also such revenues as Stamps, Bank Imposts, Light House dues, which before confederation were collected in one Province and not in the other. The main revenues which were common to both were Customs, Excise, Public Works, and Post Office, and the cost of collection of the two last bore such a large proportion to the receipts, that in their case at any rate the net revenue should be taken. Taking then the net revenue from all the four services, the result would be.

Canada.....	\$61,501,000 to Nova Scotia.....	\$ 8,000,000
Or Nova Scotia.....	8,130,000 to Canada.....	62,500,000

One or other of the above methods would appear fair, but in either case some allowance should be made, on the one hand for the higher rate of duty which Nova Scotia will now have to pay, and on the other for the goods which, either under the new tariff or as being the manufacture of Canada and New Brunswick, will now be free, but formerly paid duty.

It must also be observed that in speaking of the debt of Nova Scotia and its excess over the stipulated \$8,000,000, I have taken it, as Mr. McLelan also has done, as in Nova Scotian currency, but it is evident that to put Nova Scotia on a par with the rest of Canada it should be converted into Canada Currency. Upon this assumption the \$8,000,000 would be \$8,219,178 in Nova Scotian currency, and the estimated excess of debt not \$1,288,121, but \$1,069,943. Upon the same principle the debt of Nova Scotia, if based upon the revenues derived from Customs and Excise, which is perhaps the fairest test, would be \$8,531,500 as compared with \$62,500,000 for Ontario and Quebec.

IV. Mr. McLelan objects to our method of arriving at the total debt of the late Province of Canada. He says that the returns of 1867 shewed the total liabilities to be \$88,444,890 which we have reduced to \$71,200,000, thus taking off \$17,244,890 of our best assets. Mr. McLelan has fallen into an error in this respect. The total \$88,444,890 as given in the Statement of Affairs, includes \$7,222,730 under the head of Consolidated Fund, which is no liability, but merely the balance by which the nominal assets exceed the liabilities. Then in the Statement of Affairs, there are several accounts, which for convenience of book-keeping appear on both sides of the ledger, and in revising the statement, these are deducted from the corresponding account on the other side. Thus we do not really owe \$700,000 to the Sinking Funds of the Municipal Loan Funds; it is merely a portion of the \$9,728,000 which they owed us on the capital of the advances made to them, which they have paid off. Thus also the large item \$3,304,249, under the head Municipal Loan Fund U. C. Indemnity account, is not a debt which we have to pay. It is the indemnity given to Upper Canada under the Seignorial Act of 1859, for payments made to Seigneurs in Lower Canada, but to which it was thought that U. C. had already had more than an equivalent in the large excess of the advances made to its Municipalities. No payment was to be made on account of this indemnity, except in the almost impossible contingency of the Municipalities paying off their debt; and as the Municipal Loan Funds are now transferred to Ontario and Quebec, this indemnity must go with them, as a matter of book-keeping for Ontario and

not for the Dominion. There are also some other liabilities which appear in the Statement of Affairs, to the extent of about \$800,000, which are only contingent liabilities, and which it is proposed to transfer to Ontario and Quebec, as of local interest, upon the understanding that, if ever the Dominion is called upon to pay anything on its guarantee, it will deduct the amount from the next payment of subsidy to the defaulting Province. As revised upon this principle the debt of the late Province may be thus analysed.

Debenture debt.....	\$62,885,197.63
Trust Funds, of which the capital or the interest, as the case may be, is payable to parties or institutions in Ontario and Quebec.....	7,997,244.84
Miscellaneous liabilities, mainly consisting of the Indian Fund.....	1,822,997.62
Financial Agents and other banking accounts.....	3,096,415.22
	Total.....
	<u>\$75,801,855.31</u>
Less Sinking Funds.....	\$1,888,555.58
Securities on which interest is regularly paid.....	395,681.25
Cash and Banking accounts.....	1,461,251.96
	<u>3,745,488.79</u>
	Net debt.....
	<u>\$72,056,366.52</u>

In connection with the same subject, and in illustration of points which will arise hereafter, it may be well to discuss the several items which appear on the other side of the revised Statement of Affairs of the late Province of Canada.

The following analysis of the assets may be set down as an approximate history of our debt :

Public Works yielding revenue.....	\$17,992,751.51
Do yielding no revenue, but which were considered to be of such general advantage as to entitle us to charge them against capital.....	9,736,048.02
Capital advanced to Railways (of which \$2,810,500 may be considered recoverable)	20,196,971.35
Interest on the above (of which \$1,129,861 may be considered recoverable)	13,021,079.27
Miscellaneous Railway advances (of which \$395,000 may be considered good)	525,018.54
Miscellaneous assets (good perhaps for half the amount).....	1,291,343.34
Advances made to sundry municipalities and funds, now transferred to Ontario and Quebec.....	11,170,734.22
These appear in Statement of Affairs.....	\$73,940,956.25
*Add Seigniorial Tenure legislation.....	\$6,730,813.31
Less already included.....	196,719.66
	<u>6,534,093.65</u>
Origin of Debt.....	\$80,475,049.90
Net Debt.....	<u>72,056,366.52</u>
Balance met out of current revenue.....	\$8,418,683.38

Or it may be otherwise stated, and if we do not include the railway interest as a legitimate source of debt, we may say, that the failure of railways to pay their interest since 1855 has caused us to involve ourselves in debt beyond what was met by current income to the extent of about \$4,000,000.

It may be laid down as a general principle, that when two independent parties enter into a partnership, in deciding the position of each in the new arrangement, these points must be taken into account.

- (1.) The liabilities speak for themselves and cannot be altered.
- (2.) Such assets as are not a security for money, but which are to remain the joint property of the whole, should be valued in some way. The amount they originally cost to the

first owner, and the return in money which they may be expected to yield, are neither of them a sufficient test, though they may be taken into account in the valuation. The benefit which the whole country will derive from them, is the true test, and may be different from what is indicated by either their original cost or their money returns.

(3.) Assets which are a security for a definite sum of money must be valued, either at the whole amount, if good, or at what they may be expected to realize, and they must either be deducted from the liability of each, or must be retained by the original proprietor, and not brought into the common stock at all. Or if they are retained as joint property, and an estimate cannot be made of what they will realize, the party originally owning them must get credit subsequently in the apportionment of his share, as the proceeds come in.

I do not think there can be any doubt as to the equitableness of the principles above laid down. If we apply them to the assets of the late Province of Canada, as above analysed, the public works yielding revenue come under the 2nd head. The public works yielding no revenue also come under it, but, as in the other Provinces no accounts have been kept open for such works, although they, no doubt, have an equivalent in roads, buildings, harbors, &c., they may be left out of account altogether. The railway indebtedness is, strictly speaking, a security for money, and should therefore be deducted from the debt under the third head, the probable amount which may be immediately realizable, being between \$4,000,000 and \$4,500,000; but as railways themselves come under the 2nd head, and the system upon which railways were obtained in Nova Scotia and New Brunswick differed altogether from that adopted in Canada, they may be left under the 2nd head. The miscellaneous assets amounting to \$1,291,343, and the present value of which is fully half that amount, are all securities for money, and should strictly speaking, have been treated as coming under the third head; but they have not been so treated, and to that extent, if the items remain as stated above, Ontario and Quebec will have suffered a loss. The last item is that of the assets transferred to Ontario and Quebec, upon which subject so much misconception has arisen, and I will treat of it under a separate head.

V. These are securities for money advanced, and if they had been retained by the Dominion, they ought, upon the principles laid down, to have been deducted from the debt at a valuation, or, if not deducted, they should have been left in the hands of the original owner, and not have entered into the common stock at all. The latter was the method adopted, and I think it perfectly just. If any sum had been paid in on the 30th June, 1867, on account of these advances, by increasing the cash it would have diminished the net debt, and the overplus for which Ontario and Quebec are responsible. Can any reason be assigned why, if the sum had been paid on July 31st, the Dominion should have the advantage, and Ontario and Quebec have gained nothing, except in so far as they form part of the Dominion? It was these very advances which brought the debt up to its present amount, and caused Ontario and Quebec to have to pay interest upon the \$10,000,000, by which we may say in round numbers that the debt exceeds the stipulated \$62,500,000; and if any part, or the whole of that excess debt were repaid, will any one say that Ontario and Quebec are to continue to pay the interest upon it for ever, simply because it was not liquidated before a certain day? The normal debt of \$62,500,000 assigned to Canada may be an unfair apportionment, and there may be assets in New Brunswick and Nova Scotia of a similar character to those retained by Ontario and Quebec, although not named in a schedule to the Act as was done in the latter case, and if such be the case the injustice should be remedied; but there is no injustice in the transference of these assets to the Provinces interested in them, and which are paying the Dominion interest upon the sum which they cost to the late Province.

With a view principally of seeing whether there is anything in the Maritime Provinces equivalent to these assets, I append an analysis of them. They consist of

The Municipal Loan Funds capital.....	\$9,728,140.00	
Less Sinking Funds.....	700,887.96	
		9,027,252.04
Arrears of interest on do.....	4,299,753.66	
Less covered by the Seigniorial Indemnity to U. C.....	3,304,249.55	
		995,504.11
Advances to certain funds on the credit of law fees, which for the last 3 years yielded an average revenue of \$80,350.26.....		393,052.68

Advances on the credit of the proceeds of certain lands, which have yielded an average revenue for the last 3 years of \$20,007.12.....	484,244.33
Miscellaneous advances, mainly the Quebec Fire Loan, much of which has been wiped out by subsequent legislation. The whole yielding an average receipt of 5,638.70.....	270,681.06
Total.....	\$11,170,734.22
The capital advanced to the several municipalities out of the Municipal Loan Funds was applied as follows:	
Railway Stock.....	\$3,593,440
Loans to Railways.....	3,229,400
	6,822,840
Roads and other local works.....	2,905,300
	\$9,728,140

If we come to enquire into the nature of the expenditure under each of the other heads, the third item of \$393,052.68, is the balance remaining due of sums advanced on the credit of law fees for the erection of Gaols and Court Houses; and with the exception of \$196,719.66, on account of Seigniorial tenure, the amount advanced to the Manicipalities Fund on the credit of its lands was also for the same purpose. The income in both cases is under the control of Ontario and Quebec, and subject to their legislation. The whole amount of these assets may therefore be thus divided:

For Railways, to be considered hereafter.....	\$6,822,840.00
For local improvements such as Nova Scotia has made out of Provincial funds and not included amongst assets, as claimed by Mr. McLelan.....	3,762,597.01
Miscellaneous, including the accumulation of interest on arrears.....	585,297.21
	\$11,170,734.22

Or if we take the two last items together, Railways.....	\$6,822,840.00
Local improvements.....	4,347,894.22
	\$11,170,734.22

There has been a further misconception as to these assets transferred to Ontario and Quebec. They are supposed to be valuable and to yield a large income. Now, the income derived from all these sources, on the average of the three years before Confederation, was only \$359,244.30, of which about \$150,000 was in liquidation of capital, leaving an annual income of barely more than \$200,000. There is no doubt that, by pressing, a little more can be realized from the lands, and something more considerable perhaps from the Municipal Loan Funds, but the amount which can be legally claimed from the latter is limited by the legislation of 1859, which, without releasing the individual municipalities from their liability, precludes the Government from enforcing a payment greater than 5 cents in the dollar on their assessment. Now, at present, of the entire capital of the loan, the amount which comes under the 5 cent clause is:

In Upper Canada.....	\$5,847,400
In Lower Canada.....	768,500
	\$6,615,900
Not barred by it—Upper Canada.....	\$1,452,600
Lower Canada.....	1,659,640
	\$3,112,240
	\$9,728,140

The amount of 5 cents in the dollar upon the assessment of the municipalities which come under the operation of that clause, would be at present about.....	\$163,734
And the full interest of 5 per cent on the rest.....	155,612
Making a total of.....	\$319,346

which is the utmost limit to which the Municipal Loan Funds can be rendered available, exclusive of any payments on account of capital.

Now, although it is quite just in principle that these assets, be they of what value they may, should be handed over to Ontario and Quebec, if they are not counted as a deduction from the gross debt, yet we are bound to enquire whether there may not be analogous assets in Nova Scotia, which should be similarly dealt with.

In Nova Scotia, as Mr. McLelan states, it has always been the custom to pay for all local improvements out of the general funds of the Province, whereas in Canada, with the exception of an annual grant for colonization roads, and the main road connecting us with the Maritime Provinces, it has for many years been the custom to leave all such matters in the hands of the Municipalities; or if the Government has originally advanced the money, it has been as a loan to the Municipalities, which they are liable to repay. When therefore we unite ourselves with a Province, which had dealt in such a different manner with those local works, it would have been very unfair to require the municipalities to refund the advances in one section, and to leave them free in another. Even if these advances had not come under the definition of securities for money, which are either to be deducted from the debt, or left with the original owner, it would only have been equitable to cancel the debt, or to hand it over to the Local Government to deal with as they may think fit. There is nothing analogous in Nova Scotia to this \$4,347,000 for local improvements. They had all their roads and piers, and court houses built out of the general funds, and they own them unburdened by any debt, and Ontario and Quebec are only placed in the same position.

Railways however are considered of such general importance that they are to be retained in the hands of the Dominion, and if individual Municipalities were formerly held liable for the sums which had been advanced for them by the general government towards some of these undertakings, it is only fair that they should be released from that liability. But in this case there is something analogous in Nova Scotia. The several Municipalities did contribute something towards the railways, under the head of land damages. That is they were expected to give the right of way, and if the government advanced the money to pay individuals, it held the counties liable to refund it. So also the city of Halifax entered into an engagement to pay £100,000 towards the cost of the Railway, though I believe it never fulfilled its promise. These transactions are exactly analogous to the liabilities which the Canadian Municipalities incurred for Railways, and if the financial statements in Nova Scotia had been made out in the same form as ours, these liabilities of the Municipalities would have appeared in the Statement of Affairs as assets of the Province, and would doubtless have been enumerated in a Schedule to the Act as was done with the Canadian items. But they appeared nowhere, and what has been the consequence? Not that the Dominion has fallen heir to them, but that the Province has tacitly, and quite rightly, assumed that they were to retain them. The city of Halifax engaged itself to the Province of Nova Scotia to pay £100,000 towards the Railway. The Province retains this claim, be it worth what it may, and may enforce it or abandon it as it thinks proper. The Dominion does not interfere in any way in the matter; neither ought it to do so in the case of the City of Ottawa, which engaged itself to pay the Province of Canada \$200,000, which it borrowed to aid the Prescott and Ottawa Railroad. These cases are strictly analogous, and if this Municipal indebtedness on account of railways is abandoned to Ontario and Quebec, so also has the similar claim upon their Municipalities been abandoned to Nova Scotia.

A doubt may arise, whether what the Nova Scotian counties have already paid towards the railways for land damages, should not be refunded to Nova Scotia. It is no large amount, and it must be remembered that the Canadian Municipalities have also repaid to Government about \$700,000 of the advances made to them, more than half of which was for Railways.

There is however still another point to be considered in connection with this subject, in which it appears to me that Nova Scotia is at a disadvantage. The railways to which the Canadian Municipalities contributed have almost without exception been unremunerative

and the Nova Scotian Railways cannot shew much in the shape of a profit. But supposing that hereafter matters should improve, and that some of the railways should yield a handsome return; in Nova Scotia the Dominion would reap the profit, whereas in Canada, in so far as the \$6,800,000 contributed by the Municipalities is concerned, the individual Municipalities, or Ontario and Quebec which holds them liable, would be the only gainers. It may be said that there is not much probability of the Municipalities ever realizing anything from their Railway speculations, which is true enough, but some of them have done so, and to that extent at least the argument is a valid one on the part of Nova Scotia. I cannot however see any other just cause of complaint under this head.

VI. Mr. McLelan argues that, if you exclude the assets which are to be deducted in ascertaining the net debt, and those transferred to Ontario and Quebec, and if you further leave out of account those representing general improvements, as buildings, light houses, &c., which yield no revenue, the remainder are of much less comparative value than the railroads of Nova Scotia. This is an important point which must be fairly discussed.

I see no objection to our leaving out of account those works which yield no revenue, but which have always in Canada been considered of sufficient general importance to justify us in treating them as capital expenditure, and have therefore been kept as open accounts in the Ledger. It is useless now to enquire whether we are justified in this assumption, and whether some expenditure has not crept into these accounts which should more legitimately have been borne out of annual income. For the purposes of the present enquiry they may be left out of account altogether, as the corresponding expenditure in Nova Scotia, (which I dare say, including their numerous harbours and light houses, has been comparatively as heavy as ours,) has not left its trace behind in their statement of affairs. I would go a step further and recommend that these accounts be no longer retained in the Dominion Ledger.

Upon a similar principle I think that the sums we have annually charged against the Railway Companies for unpaid interest may be similarly written off, except in so far as they represent interest which we can recover. There would then remain to set off against of net debt of \$72,056,366, the following assets:—

Public Works yielding revenue.....	\$17,992,751
Capital advanced to Railway Companies, including the advances from the Municipal Loan Fund.....	27,019,811
Other debts of Railways, mostly good.....	1,654,879
Miscellaneous assets worth at least 50 per cent.....	1,291,343
	\$47,958,784

It is by no means easy to place a value upon such assets, for their main value is not their money return into the Treasury, but the general advantage to trade, which results from them, and the difficulty is increased from the different policy which has been pursued by Nova Scotia, from that adopted in Canada. They built their railways with borrowed capital, and own them themselves; whilst we, as far as Government was concerned, only lent money to independent companies with a claim to be repaid, and in some instances, the Municipalities took stock. The comparison will stand thus:

Nova Scotia expended on Railways:.....	\$6,292,029
Canada, Loans by Government	\$20,196,971
" Municipalities	3,229,400
Stock taken by "	3,593,400
	\$27,019,771

This was the capital contributed towards our railway system by the Province at large, for the Province lent the money to the Municipalities to enable them to aid the Railway Companies. Some Municipalities, however, as the City of Hamilton, raised the money, which they advanced, on their own credit, and those amounts are not included in the above sum. For this sum we have 1,968 miles in operation, or 1 mile to every 1,274 of our population, at a cost to the Province of \$13,729.00 per mile, and \$10.77 per head. In Nova Scotia, excluding the Windsor and Annapolis road, commenced after Confederation, but including the Pictou line, although not all paid for at that date, they have 145 miles, or 1 mile to every 2,279 of the population, and at a cost of \$43,393 per mile, and \$19.02 per head. As far then as the general convenience of the public is concerned, Canada compares,

in that respect, favorably with Nova Scotia. We have a larger railway system, in proportion to our population, and we have obtained it at a less cost.

Along with the railways, it would be fair to class our Canals and other public works yielding revenue, making the total of such works. :—

Ontario and Quebec Railways as above.....	\$28,674,650
Do. Do. Canals, &c.....	17,992,751
Total Ontario and Quebec.....	46,667,401

Nova Scotia Railways..... 6,292,029

or the Nova Scotian works entail a charge upon the Dominion equal to a capital of \$19.02 per head of its population and those of Canada of \$18.61.

I do not wish to be understood as laying too much stress upon the very much larger accommodation to the public in Canada per head of the population by our 1,968 miles of railway, and our system of canals, as compared with the 145 of railways in Nova Scotia. It is the natural result of our different geographical positions. We, with only one outlet to the sea, and with a country extending far into the interior, are absolutely dependent upon our railways and canals; whilst they, with an extensive seaboard and numerous harbours, have access to the Ocean within perhaps not more than 25 miles from every man's door, and have the means to communicate with each other and with foreign countries provided by nature. But if we give them credit for this great high-road which cost them nothing, neither can they take credit for their railway system in proportion to its cost. If they have been more fortunate in one respect in having most of their communications without any cost, so have we been more fortunate in obtaining our artificial communications at a very much smaller expense to ourselves than they have. The practical value of our communications, whether natural or artificial, is the really important test of whether we enter into partnership upon equal terms in that respect; the cost at which we have made, or improved, them is altogether a secondary question. If our people have contributed to the general convenience in their lake and river navigation, their canals and railroads, their harbours and light houses, as many facilities as the Nova Scotian railroads, with their ocean navigation and its harbours and light houses, we have done all that can be required of us, and it is useless to enquire how much more or less one particular class of these facilities may, from local circumstances, have cost in the one than in the other. Such a valuation as I speak of cannot be reduced to figures, but I believe the Nova Scotians will admit, that we have taken fully as great an advantage of our facilities as they have done, though in a very different way. The total debt, with which we may enter into Confederation, must be decided upon very different principles, and the fairest perhaps may be the rate at which we contribute towards bearing its charges.

There is one point, however, connected with public works which does effect the financial settlement, and that because it relates to our several contributions towards meeting the joint debt, viz: whether those works yield any revenue. Now the Public Works of Canada have, during three years before Confederation, yielded a net revenue of \$487,773, equivalent to \$139,335 per annum, which is 0.77, or a little more than $\frac{3}{4}$ per cent. on their total cost. And the interest on the capital of the loan to the Great Western, which will hereafter be regularly enforced, is \$164,560, which, with \$14,600 interest on their bonds, regularly paid by the Northern Road, and the average dividend of 3.45 per cent. on the Grand Trunk Postal Subsidy bonds, which we hold, makes the total annual revenue from railways, \$183,354. To this must be added the arrears of interest due by the Great Western, which government is now enforcing, and which will be equal to an annual interest of at least \$60,000. All these together make up a revenue of 1.17 per cent. on the total Railway debt to the Dominion. If we further include the capital advanced to railways by the Municipalities, as I have above stated it, but upon which the interest, if any, will not accrue to the Dominion, our income from Public Works of both classes, may be set down at \$382,689, which on a capital of \$46,667,401, is equal to 0.82 per cent.

In Nova Scotia it is not very easy to arrive at a certain result as to the revenue from their railways. The cash receipts, as stated in the Receiver General's accounts for the 3½ years before Confederation, are \$711,704.52, from which, however, should be deducted

\$60,000 for railway stock transferred to the Pictou line, and charged in the capital account of that line, then under construction. The Railway Commissioners' return for the same period, gives the revenue as \$651,174.77, which corresponds so nearly with the former sum, after the deduction is made, that it may be taken as correct. The total expenditure by the Receiver General's accounts, is called \$646,894, whilst in the Commissioners' returns it is made to be \$555,207.90, a difference of more than \$91,000, for which I am unable to account. Assuming, however, the Commissioners' figures, which we may be certain have not dealt unfairly with the Revenue account, the net receipt would be \$95,966.87, or \$24,561 per annum. This, upon the total capital expended to June 30, 1867, and which does not include the whole cost of the Pictou line, although it had been running for nine months, would be 0.39 per cent., not half of the revenue derivable from the Canadian Public Works and Railways together. The percentage on the capital is however, as I before argued, not the important point, but the actual amount available for meeting the debt, and in this view the Nova Scotian works only yield $7\frac{1}{2}$ cents per head of the population, whilst the Canadian ones will yield, when the collection of the Great Western interest is enforced, 15 $\frac{1}{4}$ cents per head. It will no doubt be argued that the trade by the Nova Scotian railways has not yet been fully developed, and that the net receipts from them will increase. This is no doubt true, but if they were doubled we should still only be on a par with them, and our public works may, and no doubt will, become more remunerative. We may also look to some further returns from our advances to railroads. If we may consider the arrears of interest, due to us from the Grand Trunk and Northern, practically abandoned, and so cease to enter it up annually against them in the ledger, yet upon any material improvement in railway prospects, our claims for current interest would revive.

Under this head then I think that we are fully upon a par with Nova Scotia. We have made improvements fully equal to theirs, and as yet, at any rate, they yield a greater revenue per head.

VII. Mr. McLelan argues that the Windsor and Annapolis Railway should have been undertaken by the Dominion, and not have been charged against Nova Scotia, because it forms an important feeder to the railroads which are in our hands. There is considerable force in this argument. The road being in the hands of a private Company, to which a subsidy is given, Nova Scotia pays 5 per cent upon the amount which the Dominion advances for that purpose, for which it only gets the convenience to the locality through which it runs, the Company receiving what profit there may be in running the road, and the Dominion deriving any incidental advantage from the traffic which may be brought to its own roads. A very large amount of money, however, has been expended by Canada in strictly analogous roads, which act as feeders to the Grand Trunk, and yield little or no profit themselves, though of immense importance to the localities interested in them. But, whatever may be thought of the policy of undertaking the road on these terms, it was the deliberate act of the Government of Nova Scotia for the time being. The contract was entered into before Confederation, for the express object of bringing up its debt to the eight millions apportioned to it by the Union Act. They had the choice of entering the Union with a smaller debt, and receiving 5 per cent on any thing, by which it felt short of eight millions, or with a larger one, paying similarly on the surplus, and they elected the latter alternative. It is not easy to see how the Dominion can be fairly called upon to go back upon this decision, and to pay for a work mainly of local interest, although the general railway system may incidentally derive some advantage from it—a work, upon the policy of undertaking which it was never consulted.

Mr. McLelan objects to the engagements entered into before Confederation for the construction of this road being considered as a liability of the late Province and so included in their debt, whilst in Canada a large amount of old appropriations were written off, and amongst them one of a million for defence. The two cases, however, are not at all analogous. In Nova Scotia not only did Parliament vote the necessary sum, but upon the strength of that vote a contract was entered into, and the work was commenced. In Canada, Parliament had made the appropriation in case the expenditure were required, but no work had been commenced, or ordered, under it. In writing off these balances of old appropriations Parliament was only carrying out the policy which it has laid out for itself in the future, and which is followed in England, of taking the vote of the year for the expenditure which it is intended to make during the year, and all balances of appropriation

remaining unexpended will lapse on the 30th of June, and a fresh authority must be taken. If it should happen hereafter that any expenditure is required for Defence, the Parliament of the Dominion will, doubtless, make the necessary provision for it with due regard to the necessities of all parts of the Dominion. This is a very different thing from a provision for a local work which was already under contract and in progress when Confederation took effect, and upon the policy of which the Dominion at large had no opportunity of expressing an opinion.

VIII. Mr. McLelan claims that an allowance should be made to Nova Scotia for the Truro line, as part of the Intercolonial Railway. But upon exactly the same principle, Ontario and Quebec should have an allowance for what they advanced toward the Grand Trunk Railway of Canada. Each had a part of the road in its own territory already built from funds which enter into the debt with which they come into the Union. It is absolutely essential in view of Confederation, that the two extremes should be connected, and the Intercolonial Railway is to be built for that purpose, both parties contributing towards it. It is moreover to be observed, that apart from the general and military advantage to all British North America, New Brunswick and Nova Scotia derive the greatest local advantage from the connecting link; and Nova Scotia, fully as much as New Brunswick, as having Halifax for the terminus.

But Mr. McLelan goes even further, and says distinctly, that they claim to have "the returns from all their railways or an equivalent." It is evident that such an arrangement is directly opposed both to the spirit and to the letter of the Act of Union, and even if the whole scheme could now be remodeled upon the basis proposed by Mr. McLelan, it would be detrimental rather than otherwise to Nova Scotia, as the railways of New Brunswick and the public works and railway advances of Canada, must evidently be treated in the same way.

IX. The final point which is discussed in Mr. McLelan's letter is a most important one for Nova Scotia, and is indeed the basis of the whole question between us, viz:—has Nova Scotia the means of carrying on the necessary local expenditure, without having recourse to direct taxation, or some other means of raising the requisite revenue, over and above what it will have to contribute towards the general Government? Mr. McLelan states the case thus:

The average amount of local expenditure has been.....	\$658,000
Against which they have Subsidy.....	\$324,000
Local Revenues.....	132,000
	456,000
Deficiency.....	\$202,000

In one respect Mr. McLelan clearly understates his case, as he takes no notice of the interest payable by Nova Scotia on the balance of the debt, above eight millions, which would make the deficiency during the current year about \$250,000, and the \$658,000 set down for the average expenditure is below the real amount, if we take the $4\frac{1}{2}$ years ending June 30, 1868, as they stand in statement F prepared in my office, of the receipts and expenditure in Nova Scotia from sources which are now under the Local Government.

According to this Statement the average annual expenditure would be.....	\$790,334
Average receipts.....	\$177,443
Subsidy paid in Canadian currency.....	333,581
	511,024
Deficiency.....	\$279,310

Judging from the same statement even this would hardly be enough to estimate; for of late years the local expenditure has increased very much more rapidly than the local receipts, and if it is maintained at the same rate, the deficiency, judging from the nine months ending June 1867, and the succeeding twelve months, would in either case amount to almost the same sum, a little more than \$347,000. To this must be added the interest which Nova Scotia must pay to the Dominion on the excess of debt over eight millions, bringing up the whole deficit to close upon \$400,000.

This is a subject of such importance that it is desirable to examine it in the light of the Estimates submitted to the Provincial Parliament for the year ending September 30, 1869. The probable deficiency is therein estimated at about \$208,000, closely resembling Mr. McLelan's calculations; but the resemblance is to a great extent casual, as Mr. McLelan does not, and the Parliamentary Estimates do, include the amount payable on the overplus of the debt. If we compare this estimate item by item with the expenditure of the last two years, excluding minor difference such as will always occur, the main items upon which the former expenditure exceeded the present estimate are the cost of certain buildings, the new Province building, the Lunatic Asylum and the Hospital, which it is presumed are nearly completed, and an item called "Miscellaneous and advances," the advances being covered by corresponding repayments which are not included in the estimate of revenue. I think, therefore, that the deficit, as estimated by the Provincial Government, may be taken as substantially correct, and that if anything it is rather understated.

There is no doubt that this in a great measure arises from the expenditure in Nova Scotia having been in excess of its income. If we take the ordinary revenue and expenditure, exclusive of everything affecting the increase or diminution of the debt, and exclusive of Railways and other public works which may be considered an expenditure on capital account, the comparison will stand as follows:—(Vide Statement D.)

	9 months ending Sept. 1864.	Year ending Sept. 1865.	Year ending Sept. 1866.	9 months ending June 1867.	Year ending June 1868.
Expenditure....	\$923,747	1,484,738	1,898,548	1,549,620	2,097,821
Receipts	992,174	1,432,247	1,721,728	1,216,830	1,738,734
Surplus.	\$68,427	.....	.....	.....	.....
Deficit.....	52,491	176,820	332,790	359,087	

It is clear therefore that the financial position of Nova Scotia before Confederation was not in a sound condition, and that in any case, in order to maintain their expenditure at the same rate as formerly, they would have had to increase their taxation. But if we analyze this statement, as is done in statements E and F, taking in the one the receipts and expenditure with respect to services which are now under the Dominion, and in the other those which remain with the Province, it will be evident that they are not relieved from their financial difficulty by Confederation. In every year the Dominion statement shews a surplus, and in every year that of the Province shews a deficiency. If now we take the subsidy into account, as if that had been payable in all those years, deducting it from the surplus in the one case, and from the deficiency in the other, the result will shew the loss or gain which each would have made by the transaction, based merely upon the cash transactions of those years, and without any reference to additional interest, payable in consequence of further engagements entered into.

	9 months ending Sept. 1864.	Year ending Sept. 1865.	Year ending Sept. 1866.	9 months ending June 1867.	Year ending June 1868.
Dominion Receipts.....	\$880,671	1,291,697	1,557,162	1,068,788	1,504,910
Expenditure	470,609	790,264	1,022,137	890,650	1,173,178
Surplus	410,062	501,433	535,025	178,138	331,732
Subsidy	250,186	333,581	333,581	250,186	333,581
Gain or loss.....	+159,876	+167,852	×201,444	-72,048	-1,849
Province Expenditure	\$453,138	694,474	876,411	658,970	924,643
Receipts	111,503	140,550	164,566	148,042	233,824
Deficit	341,635	553,924	711,845	510,928	690,819
Subsidy	250,186	333,581	333,581	250,186	333,581
Loss.....	91,449	220,343	378,264	260,742	357,238
United loss or gain....	+68,427	-52,491	-176,820	-332,790	-859,087

which latter figures are the same as those before given as the surplus and deficiency in those years. The deficit for the year 1867-8 is deduced in statement L by a different process, and produces a still larger deficiency. So that in the three first years, whilst the Dominion would have realized an annual profit out of the partnership, the Province would have sustained a heavy loss. In the two last years both parties would have suffered a loss, or in other words, the revenues of Nova Scotia were not enough to pay all its expenses, but whilst those of the Dominion were nearly covered by its revenues, the main portion of the loss fell on the Province, to the serious extent of more than one-third of its local expenditure.

In this statement I have not taken into account any excess or otherwise of the debt over eight millions, which would have unnecessarily complicated the statement. In the earlier years it would have had the effect of somewhat reducing both the gain of the Dominion and the loss of the Province. On the 30th June, 1867, the debt stood approximately at \$8,026,117, and on the 30th June, 1868, \$8,707,044. I say approximately, because the principles upon which the debts of the Provinces are to be ascertained, have not yet been fully determined upon. If we take \$8,366,580, the average of those two sums, it would leave \$366,580 as the balance of the debt, for which Nova Scotia would have been responsible, and five per cent. upon which should have been deducted from its subsidy. This would have brought up the deficiency of the Province to \$375,568, and would have more than compensated for the apparent loss to the Dominion. If we now take into account the large expenditure by the Province on buildings, in 1867-8, which, as I before stated, will not have to be repeated in other years, to the extent of from \$100,000 to \$150,000, we arrive at a very similar sum for the probable permanent deficiency of Nova Scotia, to that estimated by the Government for next year.

This statement appears to me to be conclusive, as to the impossibility of Nova Scotia carrying on its ordinary expenditure under the present terms of Confederation, without resorting to direct taxation, or throwing the burden of education or local works, partially at least, upon the Municipalities. It is true that this is already largely done by Canada proper and that without the Municipal taxes its local expenditure could not be kept up to its present amount; but a Nova Scotian may very well answer that their Provincial revenues were enough for their wants in this respect, without having recourse to Municipal taxation. It is true also that from the gradually increasing deficit of the last few years, and from the additional works and subsidies to railways, for which they had made themselves responsible, these revenues would have been no longer sufficient. They would have been compelled to raise their tariff to as high a rate as that in Canada, and even then perhaps some additional charges might have fallen on the Municipalities; but the fact still remains, that up to the date of Confederation, whatever their increasing expenditure might have been preparing for them in the future, the ordinary expenditure went on as usual, and that for education was largely increased, without any additional burden falling upon the people. The advent of Confederation immediately caused a deficiency, equal to at least a third of their usual local expenditure, and it will be impossible to persuade them, even if it be not true to the full extent, that the *post hoc* is not the *propter hoc*.

Let us examine to what extent it is true. The debt for which the works they had undertaken before Confederation and the growing liabilities to their financial agents and others would have made them responsible, is estimated at \$9,300,000. Their debt at the time of Confederation, exclusive of floating debt, and the debentures issued but not sold, was :—

Debentures.....	\$4,961,500
Savings Bank.....	657,610
Province Notes.....	622,458
<hr/>	
	\$5,241,568

leaving a balance of \$4,058,432 uncovered. Supposing that, including discount on the sale of their Debentures and charges, they would have had to pay 7 per cent. to raise this sum, this would have involved an additional annual charge of \$284,000. The annual deficit must have been also met. This in the 9 months ending June 30, 1867, was \$332,790. If to arrive at the deficit for 12 months we add a third, it would bring the sum to \$443,720; or if we add a fourth of the previous 12 months, which would probably be fairer, it would be \$376,995. The deficit on the year ending June 30, 1868, has only been \$359,238. If

then we assume a round sum of \$360,000 as an average deficit, and deduct from it the \$150,000 for buildings which, as I before stated, need not be repeated, we may state it at \$210,000. There should also be a further deduction made for interest. The interest which the debt above stated bore was 6 per cent. on the Debentures and 4 per cent. on the Savings' Banks, in all \$323,994; but the interest paid as estimated by me for the twelve months by adding a quarter of that paid in the 12 months ending Sept. 30, 1866, was \$364,014, and as stated by Mr. McLelan \$358,787. Assuming his figures to be correct, \$35,793 must have been paid on account of floating debt which in this calculation I have provided for otherwise. If then we estimate the deficiency at \$174,000 exclusive of the interest, and add the additional \$284,000 interest payable as above, we arrive at a total annual deficiency of \$458,000 which Nova Scotia would at any rate have had to meet. The percentage of the duties collected in the 9 months ending June 30, 1867, on the \$5,540,112 of dutiable articles imported was 14.88 (see Statement H). In order to raise the \$458,000 above named, they would have been obliged, if they had depended upon Customs alone, to have put on an additional 6.21 per cent. upon the \$7,376,816 dutiable goods which we may take as the annual consumption on this basis of the 9 months ending June 30, 1867, bringing up the rate of duty to 21.09. The rate at which they have paid during the 9 months after Confederation, for which alone I have perfect returns, has been 17.07, so that they would in any case have had to increase their duties 4 per cent. more than Confederation has increased them; and that 4 per cent., which has not been collected from them, amounts on the same estimates of total dutiable articles consumed during a year, to \$295,000, which is more than the deficit they now complain of.

Or to take another view of the question, we will suppose that Nova Scotia could have raised the additional \$4,058,432 at 6 per cent., although that is hardly probable. This would give an additional interest of..... \$243,506

The interest payable on the Debentures and Savings' Bank debt was at the date of Confederation.....	\$323,994
They actually paid in 1866 (vide Stat. D.).....	309,135

Or they did not pay their full interest by.....	14,859
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The deficiency as shewn above was.....	176,820
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Additional amount payable beyond revenues received in 1866.....	\$435,185
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This upon the value of dutiable goods imported that year would have required a further duty of 4.69 per cent. bringing up the total per centage to 17.90. whereas Canada in the year ending June 30, 1866, paid 22.03 per cent.

Again taking $\frac{3}{4}$ of the additional interest as above.....	\$182,730
$\frac{3}{4}$ of the interest in their then fixed debt was.....	\$242,996
they did pay in the 9 months ending June, 1867.....	286,730

Or they paid on floating debt.....	43,734
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Balance to be met.....	\$138,996
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And they had a deficiency of.....	\$332,786
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Additional amount payable beyond revenues received in 1867.....	471,770
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which would have required an additional per centage on their dutiable importations during the nine months of 8.52 making the whole 23.40, against 19.64, the average rate in Canada for the year ending June, 1867.

Again taking the additional interest at.....	\$2435,06
Interest on fixed debt.....	\$323,994
Interest paid in the year ending June, 1868.....	375,861

Or they paid on floating debt.....	51,867
------------------------------------	--------

	\$191,639
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And they had a deficiency of..... 359,097

Additional amount payable beyond revenues received in 1867-8..... \$550,736

As the returns do not enable me to give the dutiable goods imported into Nova Scotia during the whole of the past year, and as they would at any rate be affected by the goods which paid duty in Canada and New Brunswick, although they were consumed in Nova Scotia, I will take the 12 months average of the dutiable goods imported in the 21 months before Confederation. The above deficiency would have required a percentage in this amount of 6.50, which added to the average percentage paid by them in these 21 months would give 20.34 against 20.79 paid in Canada, during the same period.

It appears certain therefore that if Confederation had never taken effect, Nova Scotia, with the additional works for which they had made themselves responsible, and with the increasing deficit which had to be met, would have been obliged to have put on at least as high a rate of duties as that in Canada, in order to enable them to keep up their ordinary rate of expenditure; and if they had raised the money at a discount, such as with charges would have made their new loans cost them 7 per cent, and if they had been unable to maintain their Provincial notes as heretofore, as a practically irredeemable currency, they would still have had a deficiency of \$100,000 or upwards. But, a Nova Scotian may very well argue, on this supposition their deficiency for local expenditure would at any rate not have exceeded \$100,000, whereas now it will amount probably to \$250,000, and to this extent, I think my calculations would bear out their case, if they are really contributing now in customs and other taxes, at as high a rate as Canada paid before Confederation. The returns of the nine first months of Confederation indicate an average percentage of duties 3 per cent less than the old rate in Canada, and the total amount of duties paid in Nova Scotia is \$25,000 less than in the nine months before Confederation. No certain conclusion however, can be drawn from these figures. The rate per cent will appear less than what they will pay on the average, because in the earlier months they were paying under their own lower scale of duties; and the total amount collected may have been materially modified by importations of duty paid goods from Canada and New Brunswick, the duties upon which though collected elsewhere, were really paid by the Nova Scotians. There has not been time during the short period since the effect of Confederation has been fully felt, to enable us to shew with any certainty the financial consequences to Nova Scotia, but I think that the above considerations sufficiently indicate. (1) That Nova Scotia is now unable to meet its local wants, without local taxation to the extent of from \$200,000 to \$250,000. (2) That if Confederation had never taken place it would have been obliged to increase its annual taxation to fully as great an extent as it is now under the Dominion. (3) But that in that case its local wants would have been provided for, at least for some years to come, whereas now there will still be a deficiency for local purposes.

It must not however be inferred, as it might be from previous statements, that the Dominion receives more from Nova Scotia than it has to pay for ordinary current expenses. I shewed above that during the year 1867-8, the ordinary Dominion revenues in Nova Scotia were..... \$1,504,910

Ordinary Dominion Expenditure.....	\$1,173,178
Add Subsidy.....	333,581
	<hr/> \$1,506,759

Excess of Expenditure..... \$ 1,849

And that if the interest payable on the excess of debt had been deducted from the Subsidy, the deficiency would have been converted into a surplus of \$16,480. But this expenditure only includes the Cash payments by the paymaster at Halifax and by the Agents in London for interest, and it does not include any allowance for Nova Scotia's share of the general expenses of Government paid at Ottawa. Now the whole expenses of Civil Government, exclusive of the Lieutenant-Governors' salaries in all the Provinces, and of other expenses paid in Nova Scotia were..... \$545,956,43

The expenses of Legislation, exclusive of election expenses in all the Provinces, were..... 547,336.18

Total.....	\$1,093,292,61
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Of this sum \$117,043 would be chargeable against Nova Scotia according to its population, leaving a total deficiency on account of Dominion Services of \$100,563. This would certainly be the result of the transactions of 1867-8, but it may be questioned whether the deficiency would be a permanent one, as their former lower tariff was in force during a considerable portion of that year.

I have taken no account of the additional charge which will fall upon Nova Scotia on account of the Intercolonial Railway which would only complicate the statements unnecessarily. It is to be assumed that the Railway when it comes will confer advantages equivalent to its cost.

X. Mr. McLelan makes a strong point of the superior advantage enjoyed by Ontario and Quebec. The following estimate is based upon the expenditure of the year ending June 1867, for services which are now under the control of the Provinces.

Ontario's subsidy is.....	\$1,196,872
Less 5 per cent on say $\frac{5}{9}$ of \$10,000,000.....	277,777
	919,005
5 per cent interest on funds in the hands of the Dominion, applicable to general purposes.....	136,508
Average receipts for three years on lands.....	711,979
Expenditure for Provincial purposes, year ending June 1867.....	\$1,767,582
1,138,602	
Surplus.....	629,480
Quebec's subsidy is.....	959,252
Less 5 per cent on say $\frac{4}{9}$ of \$10,000,000.....	222,222
	737,300
5 per cent. interest on funds in the hands of the Dominion, applicable to general Provincial purposes	43,935
Average receipts for three years on lands.....	328,327
Expenditure for Provincial purposes for year ending June, 1867.....	\$1,109,292
1,093,031	
Surplus.....	16,261

In this estimate I have not taken into account the receipts in either Province on account of the Municipal Loan Fund, or of local taxes, which were paid under the Government of the United Province, and which are now transferred to them.

If they are included, the surplus would be brought up in Ontario to \$939,163
 " " " " " in Quebec to..... 251,091
 out of which they would have to meet Legislative and Executive expenses, to which there was nothing analogous in 1867.

This more favorable position of Ontario and Quebec is the consequence of the value of their lands and of the Trust Funds established in their favor for educational and other purposes on the one hand, and on the other of having been accustomed to pay out of municipal taxation much of the local expenditure, which in Nova Scotia was borne by the General Government. They have come into the partnership, so to speak, with larger private means, but unless Nova Scotia is wronged in the distribution of the general burdens of the United Provinces, this is no just cause of complaint.

To conclude this report, which has extended far beyond what I had originally proposed, of the several heads of complaint made by Mr. McLelan, I think that he is in error in saying that there is any thing unfair in our mode of arriving at our net debt, or in the transfer to Ontario and Quebec of certain local assets; and the Railways and Public Works, with which we enter the Union, are fully equal to those of Nova Scotia, both as regards their general value as means of communication, and in the money return which they contribute to the general treasury. I am inclined however to agree with him in his arguments as to the prin-

ciple upon which the debt with which each ought to have entered the Union should be decided — Nova Scotia ought to have been allowed a larger debt or Canada a smaller one. There can be no doubt that Nova Scotia will have to pay more in taxation under Confederation than it had previously been accustomed to, but not more than its increasing deficits and its new engagements would have entailed upon it. I think that it is also established that Nova Scotia does not contribute more than its share towards the general expenses, but that without some additional resource it will not have the means of paying for its accustomed local expenditure.

JOHN LANGTON,
Auditor.

APPENDIX I.
NOVA SCOTIA.—STATEMENT A.

LIABILITY:	1864.	1865.	1866.	1867.	1868.	REMARKS.
	Sept. 30.	Sept. 30.	Sept. 30.	June 30.	June 30.	
Provincial Bonds	\$ 4,000,000	\$ 4,495,000	\$ 4,900,500	\$ 6,083,500	\$ 6,228,500	
Savings Bank.....	578,000	640,000	615,200	637,610	655,610	
Province Notes	487,158	492,458	587,458	622,458	622,458	{ These Notes bear no Interest—but no provision is made for any reserve whatever in specie for their redemption.
Miscellaneous..	224,767	347,625	349,534	715,753	1,779,553	
Less—Cash in hand and Miscellaneous balances.	\$5,290,225	5,975,083	6,452,692	8,142,321	9,288,121	
Net Debt per Statement B	\$4,846,146	798,898	420,676	116,204	.....
Interest— per •	5,176,185	6,032,016	8,026,117	9,288,121	
Interest— per •	183,770	278,875	309,145	382,306	506,787	The Interest in "1868" column is calculated at 6 per cent. on Provincial Bonds and Miscellaneous Items, and at 4 per cent. on Savings' Bank Balance.
Receipts—Less Province Notes, Savings Bank, Copper Coin and Loans—Per Statement D.....	992,174	1,432,247	1,721,728	1,216,830	1,738,734	
Expenditure—	do	923,747	1,484,738	1,898,548	1,549,620	
Excess of ordinary Expenditure.....	.....	52,491	176,820	332,790	2,097,821	
do Receipts.....	68,427	.....	.....	.....	359,087	

NOVA SCOTIA.—STATEMENT B.

STATEMENT of the Liabilities of the Province of Nova Scotia and the Annual Interest thereon, on the 30th Sept., 1864, 1865 & 1866; and on the 30th June, 1867 and 1868.

SEPT. 30, 1864.

(App. No. 23, Journals of the House of Assembly, N. S., p. 6, 1865.)

LIABILITIES :—

Provincial Bonds.....	\$4,000,000 00
Savings Bank	578,000 00
Province Notes	487,458 00
Undrawn Moneys.....	218,700 00
Miscellaneous.....	6,067 10
	<hr/>
	\$5,290,225 28
Less—Balances due by Collectors, various Departments, and others.....	\$218,928 37
Cash in Bank N. S.....	225,500 96
	<hr/>
	444,079 33
Net Liabilities.....	<hr/> <u>\$4,846,145 95</u>
INTEREST paid in 9 months, ending 30th September, 1864, to 30th June, 1864.....	137,832 55
Add for 3 months.....	45,944 00
Total Interest for year.....	<hr/> <u>\$183,776 00</u>

SEPT. 30, 1865.

(App. No. 37, p. 6, 1866.)

LIABILITIES :—

Provincial Bonds.....	\$4,495,000 00
Savings Bank.....	640,000 00
Province Notes.....	492,458 00
Undrawn Moneys.....	340,373 98
Miscellaneous	7,251 11
	<hr/>
	\$5,975,083 09

STATEMENT B.—*Continued.*

Cash—Railway Funds.....	\$280,758 88
Do In Receiver General's Hands.....	222,932 97
Balances due by Collectors, &c.....	295,206 48
	798,898 33
Net Liabilities.....	\$5,176,184 76
INTEREST paid to 30th June, 1865, in England.....	210,246 50
Do Bondholders, Nova Scotia.....	34,400 00
	\$254,646 50
Savings Bank Depositors.....	24,229 20
Total Interest for year.....	\$278,875 70

SEPT. 30, 1866.

(App. No. 30, p. 6, 1867.)

LIABILITIES:—

Provincial Bonds	\$4,900,500 00
Savings Bank.....	615,200 00
Province Notes.....	587,458 00
Undrawn Moneys.....	349,534 00
	\$6,452,692 00
Cash—Railway Funds.....	\$ 3,786 64
Receiver General.....	118,832 40
Balances due by Collectors, &c	298,056 65
	420,675 69
Net Liabilities	\$6,032,016 31

INTEREST paid during year ended 30th September,
1866:

Baring Bros., to 30th June, 1866.....	\$210,140 01
Bondholders, Nova Scotia.....	76,545 00
Savings Bank.....	286,685 01
Total Interest for year.....	\$309,135 01

STATEMENT B.—*Continued.*

JUNE 30, 1867.

LIABILITIES:—

Provincial Bonds	\$6,086,500 00
Savings Bank.....	657,610 04
Province Notes.....	622,458 00

Miscellaneous:—

Liabilities, (since paid by Dominion)..... \$462,464 45	
Due S. Fleming, 30th June, 1867..... 313,288 84	
	775,753 29

Less-- Balances due by Collectors, &c., (since received by Dominion).....	\$8,142,321 33
	116,204 05

Net Liabilities.....	\$8,026,117 28
----------------------	----------------

INTEREST paid during 9 months ending 30th June, 1868:

Account Railways.....	\$253,740 66
Depositors Savings Bank.....	32,874 58
Bank of Nova Scotia.....	114 74
	\$286,729 98
Add Estimate for 3 months.....	95,576 00
	\$382,305 98

JUNE 30, 1868.

LIABILITIES:—

Provincial Bonds.....	\$6,228,500 00
Balance Due Savings Bank Depositors	657,610 04
Do S. Fleming, 30th June, 1867.....	313,288 84
Do Baring Brothers, 31st December, 1867.....	299,503 98
Province Notes.....	622,458 00

Miscellaneous Liabilities paid by Dominion	\$860,887 70
Less Balances Collected	116,204 05

744,683 65

Subsidy to Windsor and Annapolis Railway	\$1,103,000 00
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Of which paid in Bonds.....	\$123,500 00
Cash.....	398,423 25
	521,923 25

581,076 75

Carried forward.....	\$9,447,121 26
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STATEMENT B.—*Continued.*

<i>Brought forward.....</i>	\$9,447,121 26
Less paid Railway Commissioners, Account Fleming's Contract, from Draft on Baring's included in their balance.....	159,000 00
	<hr/>
	\$9,288,121 26
 INTEREST :—	
6 per cent. on Debenture Debt	\$373,710
Do Miscellaneous	106,773
4 per cent. Savings Bank.....	26,304
Province Notes.....	Nil
	<hr/>
	\$506,787 00
	<hr/>

NOVA SCOTIA.—STATEMENT C.

STATEMENT shewing the ordinary Receipts and Expenditure of the Province from 1st January, 1864, to 30th June, 1867, with the Deficit or Surplus during the same period.

		Deficit.	Surplus.
	1864.		
Receipts in 9 months ending 30th September, 1864	\$1,074,174		
Less Savings Bank	\$42,000		
Treasury Notes	40,000		
	82,000		
Expenditure per Statement D	\$992,174		
	923,767		
			68,407
	1865.		
Receipts in year ending 30th September, 1865	\$1,506,705		
Less Savings Bank	\$62,000		
Treasury Notes	5,000		
New Copper Coin	7,458		
	74,458		
Expenditure per Statement D	\$1,432,247		
	1,484,738		
		52,491	
	1866.		
Receipts during year ending 30th September, 1866	\$1,857,248		
Less Savings Bank	\$38,000		
Treasury Notes	95,000		
New Coin	2,520		
	135,520		
Expenditure per Statement D	\$1,961,348		
Less Savings Bank	62,800		
	1,898,548		
		176,820	
	1867.		
Receipts—9 months ending 30 June, 1867	\$1,409,330		
Less Savings Bank	\$42,500		
Treasury Notes	35,000		
Bariug's	115,000		
	192,500		
Expenditure per Statement D	\$1,216,830		
	1,549,620		
		332,790	
Total Deficit	\$562,101		
Less Surplus	68,407		
Deficit during 3½ years ending 30th June, 1867	\$493,694		*

NOVA SCOTIA.—

STATEMENT of the Gross Receipts and Expenditure of the Province

RECEIPTS.	1864. Nine months ending	1865. Year ending	1866. Year ending	1867. Nine months ending	1868. Year ending
	30th Sept.	30th Sept.	30th Sept.	30th June.	30th June.
	\$	\$	\$	\$	\$ cts.
Customs.....	703,114	1,042,680	1,220,134	831,436	1,148,235 54
Light Duty	12,768	18,830	15,754	11,721	14,546 15
Advances.....		1,938		11,966	
Board of Works.....	3,603	2,350	10,357	6,717	932 25
Fines and Forfeitures.....		1,000	2,400	2,000	2,774 62
Provincial Secretary's Office Fees	1,400	2,107	100	2,213	3,182 48
Royalty on Coal.....	33,746	43,645	46,944	45,972	58,342 69
Crown Lands sold.....	26,895	44,229	43,407	34,764	25,530 08
Distressed Seamen	829	2,434	2,209	1,442	1,556 93
Brewers and Manufacturers	4,795	6,070	3,106	1,211	3,836 00
Mines.....	32,459	29,705	29,519	18,304	43,750 54
Interest		2,257	3,457		
Sable Island.....	4,266	2,643	9,512	9,798	490 59
Signal Station	562	901	865	788	807 50
Wreck Money.....	2,556	2,038			
Railway Damages.....	20	505	2,692	7,000	6,600 00
Hospital for Insane.....	9,835	10,960	17,062	9,456	18,530 22
Indian Reserves.....	265	290	950	976	
Railway Revenue	118,616	181,790	257,629	153,669	248,660 16
Road Service	3,600	3,349	1,200	13,193	6,520 00
Miscellaneous.....	1,715	1,823	11,523	1,670	7,547 14
Post Office.....	31,130	30,700	42,908	45,332	41,466 00
Fisheries				7,202	13,180 77
Bank Imposts.....					891 48
Inland Revenue.....					23,421 69
Education					45,881 00
Destitution					22,050 05
	992,174	1,432,247	1,721,728	1,216,830	1,738,733 88
Savings Bank	42,000	62,000	38,000	42,500	16,000 00
Province Notes.....	40,000	5,000	95,000	35,000	
Loan from Baring & Co				115,000	
New Copper Coin.....		7,458	2,520		243 00
From Sales of Bonds					4,216 49
					1,759,193 37
Dominion Subsidy.....					333,581 00
Do To pay arrears.....	\$219,599 28				
Special account.....	50,106 85				269,706 13
Gross Receipts	1,074,174	1,506,705	1,857,248	1,409,330	2,362,480 50

STATEMENT D.

of Nova Scotia, from 1st January, 1864 to 30th June, 1868.

EXPENDITURE.	1864. Nine months ending	1865. Year ending	1866. Year ending	1867. Nine months ending	1868. Year ending
	30th Sept.	30th Sept.	30th Sept.	30th June.	30th June.
	\$	\$	\$	\$	\$ cts.
Advances.....	15,158	35,090	31,929	31,127	24,233 40
Agriculture.....	2,614	5,010	28,000	.....	12,000 00
Board of Works.....	93,950	139,100	259,567	254,431	227,086 64
Coroners' Inquests	1,160	1,800	1,840	1,370	2,280 00
Criminal Prosecutions	1,108	2,356	2,715	1,851	3,178 20
Crown Lands Department.....	11,200	15,060	20,600	21,600	22,443 24
Distressed Seamen	905	2,689	2,802	1,758	1,396 48
Drawback Duties.....	12,804	18,425	15,952	12,907	19,028 17
Education	38,735	98,034	155,781	159,586	164,474 85
Indians	185	1,790	1,298	784	2,024 85
Interest	137,833	278,876	309,135	286,730	375,361 18
Judges' Expenses	803	1,865	1,575	1,184	2,144 67
Legislative Expenses	47,004	45,407	49,001	42,695	22,988 19
Militia	21,254	36,211	138,652	59,295	115,065 08
Navigation Securities.....	17,206	14,042	49,354	21,236	21,717 45
Poors' Asylum	6,100	8,100	12,987	10,901	24,731 72
Post Office.....	48,466	77,491	48,178	74,121	77,790 76
Public Printing	7,226	13,170	10,847	8,045	448 21
Railway Expenses.....	110,000	169,000	205,000	162,894	267,000 00
Revenue Expenses.....	48,107	59,609	74,874	80,133	99,819 60
Salaries	43,335	64,831	57,556	55,350	55,533 32
Signal Station	938	1,250	1,000	1,111	4,355 88
Steamboats, Packets and Ferries.....	8,485	10,666	11,997	17,100	10,165 00
Transient Poor.....	5,175	4,661	5,736	3,322	1,039 73
Railway Damages	1,861	4,743	2,811	5,095	11,943 03
Mines	14,500	13,000	17,000	12,000	14,500 00
Board of Statistics.....	10	2,418	2,488	5,883	5,014 30
St. Peter's Canal	3,993	8,048	.....	.....	56,914 81
Immigration.....	1,300	1,200	20,200	3,900	7,411 49
Hare's Lot.....	180	240	240	180	240 00
Public Building	6,116	15,026	32,666	34,680	58,288 64
Road Service	197,940	301,962	280,964	139,897	223,983 27
Miscellaneous	13,096	33,888	45,803	29,104	25,773 37
Provincial and City Hospital.....	.....	.....	.....	9,400	12,000 00
Destitution .....	.....	.....	.....	.....	34,822 44
Charges for Management.....	.....	.....	.....	.....	33,984 54
Bank of Nova Scotia.....	.....	.....	.....	.....	56,340 66
	923,747	1,484,738	1,898,548	1,549,620	2,097,821 23
Railway Construction.....	26,000	20,000	.....	.....	193,000 00
Windsor and Annapolis Railway subsidy .....	.....	.....	.....	.....	398,423 25
Baring & Co., exclusive of Interest and Commission.....	.....	.....	.....	.....	254,146 17
Savings Bank.....	.....	.....	62,800	.....	18,390 00
New Copper Coin.....	20	4,185	.....	.....	.....
Redemption of Province Notes.....	.....	.....	.....	.....	55,000 00
Local Government to pay arrears .....	.....	.....	.....	.....	269,708 13
Subsidy .....	.....	.....	.....	.....	333,581 00
Gross Expenditure	949,767	1,508,923	1,961,343	1,549,620	3,620,067 78

NOVA SCOTIA.—

STATEMENT of the Receipts and Expenditure of the Province of Nova Scotia,
Dominion since

RECEIPTS.	1864.	1865.	1866.	1867.	1868.
	Nine months ended	Year ended	Year ended	Nine months ended	Year ended
	30th Sept.	30th Sept.	30th Sept.	30th June.	30th June.
Customs....	\$ 703,114	\$ 1,042,680	\$ 1,220,134	\$ 831,436	\$ 1,148,236
Light Duty.....	12,768	18,830	15,754	11,721	14,546
Inland Revenue.....	4,795	6,070	3,106	1,211	27,258
Post Office.....	31,130	30,700	41,908	45,332	41,466
Railways.....	118,616	181,790	257,629	153,669	248,660
Casual Revenue.....	1,400	2,197	100	2,213	3,132
Bank Imposts.....					891
Fines and Forfeitures.....		1,000	2,400	2,000	2,775
Fisheries Licenses.....				7,202	13,181
Penitentiary.....	370	214	1,595	Est'd 1,000	873
Marine Hospital.....					124
Sable Island.....	4,266	2,643	9,512	9,798	490
Signal Station.....	562	901	865	788	807
Distressed Seamen.....	829	2,434	2,209	1,442	1,557
Militia.....					79
Sales of Public Works.....					368
Wreck Money.....	2,556	2,038			
Indian Reserves.....	265	290	950	976	
Miscellaneous.....					417
Savings Bank.....	880,671	1,291,697	1,557,162	1,068,788	1,504,910
Treasury Notes.....	42,000	62,000	38,000	42,500	16,000
New Copper Coin.....	40,000	5,000	95,000	35,000	
Loan from Baring & Co.....		7,458	2,520		243
Balance Railway Bonds.....				115,000	
					4,216
Total Dominion Receipts.....	962,671	1,366,155	1,692,682	1,261,288	1,525,369
Total Local do per Stat. F.....	111,503	140,550	164,556	148,012	837,111
Total Receipts per Stat. D.....	1,074,174	1,506,705	1,857,248	1,409,330	2,362,480

STATEMENT E.

from 1st January, 1864, to 30th June, 1868, on account of Services under the Confederation.

EXPENDITURE.	1864. Nine months ended	1865. Year ended	1866. Year ended	1867. Nine months ended	1868. Year ended
	30th Sept.	30th Sept.	30th Sept.	30th June.	30th June.
	\$	\$	\$	\$	\$
Interest on Public Debt.....	137,833	278,876	309,135	286,730	375,861
Civil Government	13,542	18,062	13,670	13,750	20,946
Administration of Justice.....	12,385	19,655	19,625	19,184	20,195
Penitentiary	7,123	13,387	15,618	11,355	13,539
Militia	21,254	36,211	138,652	59,295	115,065
Statistics	10	2,418	2,488	5,883	5,014
Immigration and Quarantine	1,300	1,200	20,200	6,297	7,411
Pensions	5,400	6,800	5,000	4,800	4,800
Public Works.....	3,993	8,048	31,841	59,957	56,915
Steamboat and Packet Service.....	4,550	4,500	6,600	4,600	950
Steamer Druid—Repairs.....				25,922	8,847
Do Maintenance			24,688	9,742	4,167
Schooner Daring	3,797	6,545	10,371	9,699	4,912
Sable and Seal Island.....	3,031	5,634	10,790		6,472
Miscellaneous.....				318	240
Distressed Seamen.....	905	2,689	2,802	1,758	1,396
Indians	185	1,790	1,298	784	2,025
Signal Station.....	938	1,250	1,000	1,111	4,356
Customs.....	48,107	59,609	74,874	80,133	99,620
Excise					
Post Office.....	48,466	77,491	48,173	74,121	77,791
Railways Maintenance.....	110,000	169,000	205,000	162,894	267,000
Drawback Duties.....	12,804	18,425	15,952	12,907	19,026
Light House and Coast Service	34,986	58,674	64,355	39,410	22,645
Charges of management.....					33,985
	470,609	790,264	1,022,137	890,650	1,173,178
Redemption of Province Notes.....					55,000
New Copper Coin	20	4,185			
Subsidy					333,581
Railway Construction.....	26,000	20,000			193,000
Savings Bank.....			62,800		18,390
Local Government, account Road Services, &c.....					269,706
Total Dominion Expenditure	496,629	814,449	1,084,937	890,650	2,042,855
Total Local do per Stat. F.....	453,138	694,474	876,411	658,970	1,577,212
Total per Statement D	249,767	1,508,923	1,961,348	1,549,620	3,620,067

NOVA SCOTIA,

STATEMENT of the Receipts and Expenditure of the Province of Nova Scotia
Local Government

RECEIPTS.	Nine months ended 30th September	Year ended 30th September	Year ended 30th September	Nine months ended 30th June	Year ended 30th June
	1864.	1865.	1866.	1867.	1868.
	\$	\$	\$	\$	\$
Board of Works.....	3,238	2,136	8,762	5,717	59
Royalty on Coal.....	33,746	43,645	46,944	45,972	58,343
Crown Lands sold	26,895	44,229	43,407	34,764	25,530
Mines	32,459	29,705	29,519	18,304	43,751
Railway Damages.....	20	508	2,692	7,000	6,600
Hospital for Insane	9,835	10,960	17,062	9,456	18,530
Road Service	3,600	3,349	1,200	13,193	6,520
Miscellaneous.....	1,715	1,823	11,523	1,670	6,560
Advances.....		1,938		11,966	
Interest		2,257	3,457		
Education					45,881
Destitution					22,050
	111,503	140,550	164,566	148,042	233,824
Subsidy from Dominion.....					333,581
Dominion—repayment of Road services, &c....					269,706
					837,111
Total Dominion Receipts per Stat. E...	962,671	1,366,155	1,692,682	1,261,288	1,525,369
Total Receipts per Stat. D.....	1,074,174	1,506,705	1,857,248	1,409,330	2,362,480

STATEMENT F.

from 1st January 1864, to 30th June 1868, on Account of Services, under the since Confederation.

EXPENDITURE.	Nine months ended 30th September	Year ended 30th September	Year ended 30th September	Nine months ended 30th June	Year ended 30th June
	1864.	1865.	1866.	1867.	1868.
	\$	\$	\$	\$	\$
Advances	15,158	35,090	31,929	31,127	24,233
Agriculture	2,614	5,010	28,000	.....	12,000
Board of Works	45,013	54,860	101,904	95,631	166,505
Coroners Inquests.....	1,160	1,800	1,840	1,370	2,280
Criminal Prosecutions.....	1,108	2,356	2,715	1,851	3,178
Crown Lands Department	11,200	15,000	20,600	21,600	22,443
Education.....	38,735	98,034	155,781	159,586	164,475
Legislation	47,004	45,407	49,001	42,695	22,988
Navigation Securities.....	17,206	14,042	49,354	21,236	21,717
Poors Asylum	6,100	8,100	12,987	10,901	24,732
Public Printing	7,226	13,170	10,847	8,045	448
Steamboats, Packets and Ferries.....	3,935	6,166	5,397	12,500	9,215
Transient Poor	5,175	4,661	5,736	3,322	1,040
Railway Damages.....	1,861	4,743	2,811	5,095	11,943
Mines.....	14,500	13,000	17,000	12,000	14,500
Hares Lot.....	180	240	240	180	240
Public Building.....	6,116	15,026	32,666	34,680	58,289
Road Services	197,940	301,962	280,964	139,897	233,983
Salaries	17,811	21,919	20,836	18,750	11,738
Miscellaneous	13,096	33,888	45,803	29,104	25,534
Provincial and City Hospital .....	.....	.....	.....	9,400	12,000
Destitution.....	.....	.....	.....	.....	34,822
Bank of Nova Scotia .....	.....	.....	.....	.....	56,340
	453,138	694,474	876,411	658,970	924,643
Windsor and Annapolis Railway.....	.....	.....	.....	.....	398,423
Baring & Co .....	.....	.....	.....	.....	254,146
Total Dominion Expenditure per Stat. E...	496,629	814,449	1,084,937	890,650	1,577,212 2,042,855
Total per Stat. D	949,687	1,508,923	1,961,348	1,549,620	3,620,067

NOVA SCOTIA—

STATEMENT of the Gross Receipts and Payments on Account of the Province of
in Statement D,

R E C E I P T S .	Local Receipts.	Dominion Receipts.		Total Receipts.
		Arrears.	Current.	
		\$ cts.	\$ cts.	
Customs.....	78,097 52	1,070,138 02	1,148,235 54	
Light Duty.....	1,789 94	12,756 21	14,546 15	
Board of Works.....	58 75	873 50	932 25	
Fines and Forfeitures.....	1,249 50	1,525 12	2,774 62	
Provincial Secretary's Office Fees	39,984 49	18,358 20	3,182 48	3,182 48
Royalty on Coal.....	25,530 08	.....	.....	58,342 69
Crown Lands sold.....	492 06	1,064 87	1,556 93	25,530 08
Distrressed Seamen.....	3,836 00	.....	.....	3,836 00
Brewers and Manufacturers.....	42,689 33	1,061 21	.....	43,750 54
Mines.....	490 59	490 59	490 59	
Sable Island.....	250 80	556 70	807 50	
Signal Station.....	6,600 00	.....	.....	6,600 00
Railway Damages.....	13,744 61	4,785 61	.....	18,530 22
Hospital for Insane.....	.....	248,660 16	248,660 16	
Railway Revenue.....	6,520 00	.....	.....	6,520 00
Road Service.....	5,485 62	1,196 05	865 47	7,547 14
Miscellaneous.....	.....	41,466 00	41,466 00	
Post Office.....	568 92	12,611 85	13,680 77	
Fisheries.....	.....	891 48	891 48	
Bank Impost.....	.....	.....	.....
Inland Revenue.....	.....	23,421 69	23,421 69	
Education.....	45,881 00	.....	.....	45,881 00
Destitution	22,050 05	.....	.....	22,050 05
Savings Bank.....	208,485 18	111,744 56	1,418,504 14	1,738,733 88
New Copper Coin.....	.....	16,000 00	16,000 00	
From Sales of Bonds.....	243 00	4,216 49	.....	243 00
.....	4,216 49	.....	.....	4,216 49
Dominion Subsidy.....	333,581 00	.....	.....	333,581 00
Dominion—to pay Arrears.....	219,599 28	.....	.....	269,706 13
Do —Special Account.....	50,106 85	.....	.....
Totals.....	811,772 31	116,204 05	1,434,504 14	2,362,480 50

STATEMENT G.

Nova Scotia, for the year ending 30 June, 1868, shewing how the figures for 1868, are arrived at.

EXPENSES.	Local Expenditure.	Dominion Expenditure.			Total Payments.
		Charged to Debt.	In Nova Scotia.	In England.	
Advances.....	\$ 20,565 00	\$ 3,668 40	.....	.....	\$ 24,233 40
Agriculture .....	.....	12,000 00	.....	.....	12,000 00
Boards of Works.....	81,431 12	40,541 10	105,114 42	.....	227,086 64
Coroners Inquests.....	2,180 00	100 00	.....	.....	2,280 00
Criminal Prosecutions.....	3,090 20	88 00	.....	.....	3,178 20
Crown Lands Department.....	20,043 24	2,400 00	.....	.....	22,443 24
Distressed Seamen.....	.....	.....	1,396 48	.....	1,396 48
Drawback Duties.....	.....	8,528 11	10,498 06	.....	19,026 17
Education.....	162,874 85	1,600 00	.....	.....	164,474 85
Indians.....	51 60	1,116 00	857 25	.....	2,024 85
Interest.....	.....	5,315 23	92,971 33	277,574 62	375,861 18
Judges Expenses.....	.....	494 67	1,650 00	.....	2,144 67
Legislative Expenses.....	19,047 19	3,845 00	96 00	.....	22,988 19
Militia.....	.....	10,000 00	105,065 08	.....	115,065 08
Navigation Securities.....	20,740 10	977 35	.....	.....	21,717 45
Poor's Asylum.....	20,847 02	3,884 70	.....	.....	24,731 72
Post Office.....	.....	4,751 63	73,039 13	.....	77,790 76
Public Printing.....	.....	309 26	138 95	.....	448 21
Railway Expenses.....	.....	16,969 05	250,030 95	.....	267,000 00
Revenues Expenses.....	.....	16,258 17	83,361 49	.....	99,619 66
Salaries (including Judges and Pen- sions).....	11,737 48	.....	43,795 84	.....	55,533 32
Signal Station.....	.....	3,020 00	1,235 88	.....	4,355 88
Steamboats, Packets and Ferries	8,265 00	.....	1,900 00	.....	10,165 00
Transient Poor.....	830 31	209 42	.....	.....	1,039 73
Railway Damages.....	11,943 03	.....	.....	.....	11,943 03
Mines.....	14,000 00	500 00	.....	.....	14,500 00
Board of Statistics.....	.....	.....	5,014 30	.....	5,014 30
St. Peter's Canal.....	.....	34,805 51	22,109 30	.....	56,914 81
Immigration.....	1,200 00	1,100 00	5,111 49	.....	7,411 49
Hare's Lot.....	180 00	60 00	.....	.....	240 00
Public Building (New).....	50,420 96	7,867 68	.....	.....	58,288 64
Road Service.....	223,983 27	.....	.....	.....	223,983 27
Miscellaneous.....	18,768 95	6,115 23	889 19	.....	25,773 37
Provincial and City Hospital.....	12,000 00	.....	.....	.....	12,000 00
Destitution.....	34,822 44	.....	.....	33,984 54	34,822 44
Charges of Management.....	.....	.....	.....	33,984 54	33,984 54
Bank of Nova Scotia.....	.....	56,340 66	.....	.....	56,340 66
	739,021 76	242,865 17	804,375 14	311,559 16	2,097,821 23
Railway Construction.....	.....	.....	193,000 00	.....	193,000 00
Windsor and Annapolis Railway.....	50,106 85	348,316 40	.....	.....	398,423 25
Baring & Co., exclusive of interest and commission.....	.....	.....	.....	.....	254,146 17
Savings Bank.....	.....	.....	18,390 00	254,146 17	18,390 00
Redemption of Province Notes.....	.....	.....	55,000 00	.....	55,000 00
Local Government Account Arrears.....	.....	269,706 13	.....	.....	269,706 13
Subsidy. ....	.....	.....	333,581 00	.....	333,581 00
Totals.....	789,128 61	860,887 70	1,404,346 14	565,705 33	3,620,067 78

NOVA SCOTIA.—STATEMENT II.

50

LATE PROVINCE OF CANADA.		1864.		1865.		1866.		1867.		1868.	
		(6 Months.)		Year.		Year.		Year.		(9 Months.)	
IMPORTS—Value of Free.....	\$ 7,096,826	14,538,841	15,335,201	16,880,926	14,918,904	16,756,749	16,880,926	14,918,904	16,756,749	14,918,904	16,097,338
Do Duty paid.....	14,309,836	25,313,150	33,275,276	35,756,749							
DUTY.....	\$ 21,406,712	39,851,991	48,610,477	52,637,075	40,616,242						
Average percentage of Duties on Total Imports.....	\$ 3,063,368	5,663,377	7,330,724	7,023,327	5,343,762						
Do of Duties paid.....	14.32	14.21	15.08	13.34	13.16						
Do of Imports Free.....	21.43	22.38	22.03	19.64	20.47						
	43.23	38.98	47.76	41.61	35.75						
PROVINCE OF NOVA SCOTIA.											
IMPORTS—Value of Free, per Statement J		Year.		Year.		Year.		(9 Months.)		(9 Months.)	
Do Duty paid.....		4,242,072	5,998,855	3,747,194	3,025,935	1,108,825					
Total Value.....	\$ 7,089,902	7,037,765	9,278,239	5,540,112	4,672,874						
DUTY.....	\$ 11,331,974	13,086,620	13,025,433	8,565,647	5,781,699						
Average percentage of Duties on Total Imports	\$ 967,350	1,040,583	1,226,398	824,534	797,598						
Do of Duties paid.....	8.53	7.95	9.41	9.62	13.80						
Do of Imports Free.....	13.64	14.68	13.21	14.88	17.07						
	37.43	45.83	28.76	35.38	19.18						
PROVINCE OF NEW BRUNSWICK.											
Imports—Total Value.....		Year.		Year.		Year.		(6 Months.)		(9 Months.)	
Do.....		8,945,352	7,083,592	10,000,706	3,820,167	4,328,128					
Average Percentage of Duties on Total Imports.....	\$ 925,309	713,409	1,036,910	525,605	616,726						
	10.33	10.09	10.37	13.75	14.25						

Note.—Statement I shows that if Nova Scotia had not been in the Union, she would have had to provide for a deficit of at least \$390,841 during the year 1868. Under the Provincial Tariff, the duty in 1867 averaged \$9.62 per cent of the total Imports. Had the Province made provision for a deficit of \$390,841 by a change in the tariff, the percentage on the same amount of dutiable goods would have been increased from \$9.62 to \$14.18, or 38 cents more than was actually collected under the Dominion Tariff in Nova Scotia in 1868.

NOVA SCOTIA—STATEMENT I.

	CANADA.	NOVA SCOTIA.	NEW BRUNSWICK.
Population.....	2,507,647	330,857	252,047
Value of total imports, per head, 1864.....	\$ cts. 17 07	\$ cts. 34 25	\$ cts. 35 49
1865.....	15 89	39 55	28 05
1866.....	19 38	39 37	39 68
1867.....	20 99	34 52	30 03
1868.....	21 59	23 28	22 90
Value of dutiable goods, per head, 1864	11 41	21 42	
1865.....	10 09	21 42	Not ascertained.
1866.....	13 27	28 05	
1867.....	14 25	22 33	
1868.....	13 88	18 83	
Duty collected, per head,			
1864.....	2 44	2 92	3 67
1865.....	2 26	3 14	2 83
1866.....	2 92	3 76	4 11
1867.....	2 80	3 32	4 17
1868.....	2 84	3 21	3 27

If the deficit shewn in Statement L, of \$390,841, had been met by a further increase in the Nova Scotian tariff, the amount per head of duty collected in that Province in 1868, would have been \$4.39, or \$1.07 per head more than in 1867. This increase, per head, would have been still larger, if the Dominion Tariff had not been in operation during the last seven months of the financial year.

NOVA SCOTIA.—STATEMENT J.

STATEMENT of Value of Goods entered for Consumption in the Province of NOVA SCOTIA during the years 1864, 1865 and 1866, and Nine Months ended 30th June, 1867; distinguishing the value of Goods admitted Free from those which paid duty.

	ARTICLES.			1864.			1865.			1866.			9 Mos. to 30 June, 1867.		
	Paid Duty.	Free.		Paid Duty.	Free.		Paid Duty.	Free.		Paid Duty.	Free.		Paid Duty.	Free.	
Ale and Porter.....	\$ 40,260	2,075		\$ 49,230			\$ 41,911			\$ 28,251			\$ 28,251		
Animals.....	24,654			16,657			3,303			2,929			1,240		
Arms and Ammunition.....	500	253,000		2,160			28,162			52,318			68,221		
Beef, Pork, &c, and Ham.....	10,200	15,200		2,410			70,052			102,540			15,20		
Burning Fluid.....	8,500			7,416			34,216			34,251			15,51		
Bread, Ship or Navy.....	276	25,000		1,296			7,000			11,707			3,418		
do Fine.....	2,600			4,303			20,749			14,826			53,058		
Butter and Lard.....	2,300			37			1,254			4,453			4,453		
Candles—Tallow.....	116			1,875			2,818			3,232			3,232		
do other.....	1,000	5,800		5,613			149			8,012			3,542		
Chocolate.....	5,246			326			4,480			5,817			4,530		
Cheese.....	555			31,600			66			2,889			2,889		
Clocks							57,092			1			1		
Cinnamon and Cassia.....										25,558			17,269		
Coal.....															
Coffee—Green.....	19,950			24,258			31,467						25,633		
do Roasted.....	4,700			3,816			3,173						1,722		
Cotton Yarn, &c.....	35,912			53,162			93,902						61,559		
Cordage and Canvas.....	507,613			428,665			505,325						287,166		
Cotton, Linen, Silk and Wool, manufactured.....	2,809,174			2,655,004			3,227,785						1,694,001		
Confectionery.....	4,863			8,734			13,798						10,222		
Drugs, Dye Stuffs, &c	177,785			11,9215			112,951						96,519		
do Patent Medicines.....	13,531			13,920			13,380						10,069		
Earthenware, Glass and China.....	103,741			118,112			145,641						88,052		
Flour, Wheat.....	65	1,903,775		325	1,874,779		838,594			1,603,038			420,000		
do other.....		137,884			106,576					273,091			1,307,122		
Fruit, Apples, Pears, &c		29,545			17,382		3,672			16,936			292,060		
do Raisins.....							61,720						7,260		
all other and Nuts.....							25,461						2,810		
Fish—Mackerel and Shad.....		75,961						140,316					24,481		
Dry.....		168,843						86,230					9,206		
do Salmon and Trout.....		25,710						48,558					86,789		
Alewives and Herring.....								112,188					31,281		
do Shell Fish, &c.....													91,938		
None shewn.....															

Grain—including Rice.....	136,693	206,850	60,419	73,528	234,667	61,779	203,994
Groceries.....	16,773	.....	60,419	.....	.....	61,779	.....
Ginger, Pepper and Pimento.....	1,966	.....	1,103	667	.....	257	.....
Hardware—1st Class.....	526,315	.....	640,843	667,756	.....	401,241	.....
do 2nd ".....	452,937	.....	482,730	617,168	.....	254,737	.....
do 3rd ".....	68,916	68,018	65,375	271,645	321,486	45,718	228,532
Hats and Caps.....	16,378	47,900	15,021	64,633	68,499	19,157	53,877
Hides and Skins, undressed.....	35,725	.....	54,630	.....	.....	83,361	.....
India Rubber, manufactured.....	222,258	.....	199,379	.....	.....	195,215	.....
Jewellery, including Watches and Toys.....	60,000	.....	66,677	.....	.....	43,986	.....
Leather manufactures, including Furs.....	272,586	.....	256,983	.....	.....	304,364	.....
do Sole.....	44,970	.....	16,056	.....	.....	24,429	.....
Molasses and Treacle.....	69,398	.....	83,341	.....	.....	110,189	.....
Naval Stores, including Oakum.....	35,795	.....	43,397	.....	.....	24,310	.....
Oil—Rock and Coal.....	66,977	.....	55,349	.....	.....	38,629	.....
do Fish.....	65,600	.....	71,030	.....	.....	36,096	.....
do Linseed.....	116,750	.....	15,123	.....	67,429	.....	50,184
Paper, Printed Books, &c.....	79,178	.....	14,806	.....	109,182	.....	94,922
Paint and Putty.....	46,128	.....	53,036	.....	.....	52,445	.....
Spirits—Grenada and Whiskey.....	129,826	.....	154,352	.....	.....	59,331	.....
do Rum.....	57,326	.....	79,926	.....	.....	160,494	.....
do Brandy and Cordials.....	342	.....	60,93	.....	.....	105,980	.....
do Wine.....	80,733	.....	65,532	.....	.....	127,338	.....
Sugar—Raw.....	229,690	.....	288,977	.....	.....	349,755	.....
do Refined.....	51,438	.....	79,151	.....	.....	74,513	.....
Salt.....	147,560	.....	134,334	.....	.....	189,458	.....
Stone—manufactured.....	11,879	.....	17,743	.....	.....	11,158	.....
do unmanufactured.....	22,217	.....	25,479	.....	.....	7,648	.....
Tea—Green.....	1,100	.....	634	.....	.....	34,458	.....
do Black.....	372,017	.....	416,659	.....	.....	276	.....
Tobacco—manufactured.....	83,600	.....	82,680	.....	430,697	.....	345,512
do unmanufactured.....	92,249	.....	54,156	.....	80,983	.....	22,620
do Cigars and Snuff.....	11,308	.....	20,939	.....	.....	13,363	.....
Vegetables—Onions.....	900	.....	1,811	10,458	.....	15,120	.....
do all other.....	132,418	.....	73,261	52,430	12,211	2,047	7,263
Woodware—manufactured.....	88,632	.....	67,598	105,138	102,181	55,127	69,961
do unmanufactured.....	1,627	.....	24,412	.....	.....	66,463	.....
do 5 per cent.....	577,284	.....	1,358	27,193	129,164	3,004	82,615
do do Free.....	35,524	.....	2,444,266	61	.....	169,263	9
Sundries from Warehouse.....	7,089,902	4,242,072	7,087,765	5,998,855	9,278,239	3,747,194	5,540,112
Totals.....							3,025,535

CUSTOMS DEPARTMENT,
Ottawa, October 1868.

NOVA SCOTIA.—STATEMENT K.

Memorandum of the differences between the Statement of the Debt of Nova Scotia prepared by Mr. Tims and that submitted to the Provincial Government on the 4th August, 1868, by the Commissioners on the Financial State of the Province.

Total amount of debt per Mr. Tims' Statement.....	\$9,288,121.26
Do. do. Commissioners' do.....	7,802,654.99

Difference..... \$ 485,466.27

This difference is represented by the following items omitted by the Commissioners:

Expenditure by Dominion in liquidation of Provincial Liabilities from 15th February to 30th June, 1868.....	\$149,903.98
Balance due Mr. Fleming, 30th June, 1868, on contract for construction of Pictou Railway.....	313,288.84
Error in stating amount of subsidy payable towards construction of Windsor and Annapolis Railway.....	3,000.00

	\$466,192.92

Less—Omission by Commissioners of payment to Contractors of Windsor and Annapolis Railway.....	\$7,032.50
Balance in hands of Manager of Savings Bank, 30th June 1869.....	4,739.63

	11,772.13

	\$454,420.69

Add—this sum deducted by Commissioners as the balance held by Railway Department not included in Mr. Tims' statement, the correct amount not being yet ascertained.....	31,045.58

	\$485,466.27

NOVA SCOTIA.—STATEMENT L.

STATEMENT showing the deficit which Nova Scotia would have had to provide for during the first year of Confederation, if no Union had taken place.

Gross Expenditure during the year ending 30th June, 1868, per Statement B.....	\$3,620,067.78
Less Province Notes redeemed.....	55,000.00

	\$3,565,067.78

Deduct the following expenditure which may be considered as chargeable to Capital, and for which Debentures might have been issued, viz:—

Windsor and Annapolis Railway.....	\$398,423.25
Pictou Railway.....	193,000.00
Balance due Baring & Co., exclusive of interest and charges of management.....	254,146.17

	845,569.45

	\$2,719,498.35

Gross Receipts from all sources of Provincial Revenue during the year ending 30th June, 1868.....	2,362,480.50
Carried forward, deficit.....	357,017.86

<i>Brought forward, deficit.....</i>	\$357,017.86
Assuming that Debentures had been issued for the above sum of \$845,569.	
42, there would have been an additional charge thereon for Interest, &c., say for six months at 6 per cent per annum, of..... \$25,367.10	
Add 1 per cent. for management..... 8,455.69	
	33,822.79

Total deficit, equal to over 34 per cent. of last
year's collections from Customs..... \$390,840.65

If the New Dominion tariff had not been in operation, say for nearly seven months of the past financial year, the ordinary revenues would have been less, and a still larger deficit have to be met by a higher tariff than at present, a resort to direct taxation, or by a further Loan equal to over 34 per cent. of last financial year's total collections from Customs.

APPENDIX II.

MEMORANDUM ON MR. ANNAND'S STATEMENTS.

1st. He estimates the debt of Nova Scotia at \$9,000,000 and the annual interest at \$489,498.

The real debt as per Statement B, will be \$9,288,121, and the interest \$506,787, exclusive of interest on Province Notes.

2nd. His estimates of the Income and Expenditure, are based on the average of 5 years ending 1866, and are stated to be :

Income.....	\$1,332,529
Expenditure.....	1,259,126
Apparent Surplus	73,403
To which he claims to add the estimated increase in certain Revenues.....	69,384
Making estimated surplus in 1866.....	142,787
To which he further claims to add a saving on Militia expenditure.....	29,012
Thus increasing his supposed surplus to.....	171,779
But from this he deducts certain items of estimated increase on expenditure amounting to.....	104,258
Leaving net Estimate Surplus.....	67,541
This he proposes to increase so as to produce an income more adequately to meet certain services, by the addition of 1 per cent duty on the average importations of 5 years, stated to be \$12,002,749, and to produce...	120,027
Estimated Surplus, as stated in Mr. Annand's Tables, with 1 per cent additional on the Nova Scotia Tariff.....	187,568

This method of taking an average is not a fair one, as the Debt has increased from \$4,846,146 in 1864 to \$9,288,121 in 1868, and the ordinary expenditure during the same period from \$923,747 to \$2,097,821.

There are no means of verifying Mr. Annand's figures shewing the average expenditure of five years upon which his calculations are based, but a comparison of some of the services and of the total expenditure with the average for $3\frac{1}{2}$ years, prior to Confederation, shews the following results :

	Mr. Annand's average of five years.	Average of $3\frac{1}{2}$ years before Confederation.
Salaries.....	\$55,749	\$64,592
Revenue Exp.....	59,945	75,064
Militia	49,012	72,975
Legislative expense.....	42,299	52,602
Education	85,113	129,182
Total expenditure (excluding In- terest and Road services as Mr. Annand has done).....	769,628	1,120,947

Of all such cases where the expenditure has become much greater of late years, Mr. Annand takes no notice except by allowing \$104,258 for them, whilst the increase as shewn by a comparison with a $3\frac{1}{2}$ years average is more than \$350,000; but he makes an allowance for the revenues which he thinks are below the average, and for an expenditure on Militia which he supposes may be reduced from his average of \$49,012 to \$20,000, whilst the average of $3\frac{1}{2}$ years was really \$72,975; and when he comes afterwards to add for the road service he sets it down at \$160,000, whilst the average of $3\frac{1}{2}$ years was \$280,000, and his own government has estimated it for the current year at \$240,000.

But setting aside averages altogether, we know the actual receipts and expenditure of the nine months before and the twelve months after Confederation, and we may compare them with Mr. Annand's estimates, including the interest, but still omitting the road service as he has done and special items to which he has nothing analogous.

Mr. Annand.	9 Months ending June, 1867.	1867-8
Income.....	\$1,332,529	\$1,216,830
Expenditure.....	1,259,126	1,409,723
Surplus	\$ 73,403	
Deficit.....		\$44,780
and even this is not the whole deficit if the interest on the debt had been fully taken into account, for the interest will be.....		\$506,787
Interest paid in 1867-8.....		375,861
Difference.....		\$130,926
And $\frac{1}{4}$ of above interest.....		\$380,090
Interest paid in 9 months ending June, 1867.....		286,730
Difference.....		\$93,360

Mr. Annand estimates the Revenue under the Dominion Tariff at \$1,855,666 for the year, and against this places \$1,632,384, as the Expenditure. The surplus of \$223,282 being the sum which he states that the Province would have had, if they had adopted the Dominion Tariff and had not been confederated.

Assuming, for argument sake, Mr. Annand's Estimate of Receipts under Dominion Tariff, to be a fair approximation to the correct amount, say :..... \$1,855,666

He evidently under-estimates the expenditure, as the above figures shew, viz :—

On the average of $3\frac{1}{2}$ years prior to Confederation it was	1,673,329
Year before do.	2,066,160
In 1868.....	2,097,821
Whereas he sets it down at.....	1,632,384

If the additional interest now payable on the Debt is added, the expenditure of 1868 would be increased to	2,228,968
Or an excess over Mr. Annand's estimate of expenditure of.....	596,584
And an excess over his estimate of Revenue of.....	373,302

He also asserts that 1 per cent. additional duty on \$12,000,000, the average value of Imports of 5 years, would yield \$120,000 per annum. He has apparently taken the whole importations, whether free or dutiable, for his calculation ; the value of dutiable goods imported in 1864 was	\$7,089,902
1865	7,087,765
1866	9,278,239
1867 (9 months)....	5,540,112
Add for 3 months.....	1,846,704
	\$30,842,722

Average \$7,710,680. 1 per cent. would therefore only give \$77,106 additional Revenue, instead of \$120,000.

APPENDIX No. III.

AMOUNTS payable to the several Provinces by the Dominion and the rate per head.

SCHEDULE No. 1.

Shewing the gross payments by the Dominion, exclusive of Revenues from Local Assets and assuming that the amounts under the Seigniorial Legislation are to be regarded as payment to Quebec.

ONTARIO.

Subsidy and additional allowance, sec. 118.....	\$1,196,872.80
Common School Fund, share.....	45,809.10
U. C. Grammar School Fund.....	15,638.45
U. C. Building Fund.....	75,060.45
	\$1,333,380.80

Or 95½ cents per head of the population.

QUEBEC.

Subsidy and additional allowances, Sec. 118.....	\$959,252.80
Shares of Common School Fund.....	36,473.12
Superior Education Fund.....	7,462.40
Compensation to Seigniors.....	186,786.00
Indemnity to Townships.....	45,402.60
	\$1,235,376.92

Or \$1.11 per head of the population.

NOVA SCOTIA.

Subsidy and additional allowance, Sec. 118.....	\$324,685.60
Or 98 cents per head of the population,	

NEW BRUNSWICK.

Subsidy and additional allowance, <i>Sec. 118</i>	\$251,637.60
Additional allowance, <i>Sec. 119</i>	63,000.00
	<hr/>
	\$314,637.60

Or \$1.25 per head of the population.

N. B.—Ontario pays back in interest on its debt all it receives from the special funds, leaving only the subsidy; and Quebec pays back in the same way all but 1 per cent on the Seigniorial debt, leaving the net amount $85\frac{3}{4}$ cents and $89\frac{3}{4}$ per head of population.

SCHEDULE No. 2.

Showing gross Revenues, including those paid by the Dominion and those derived from funds and services formerly belonging to the Dominion and now to the Provinces, based upon the receipts of 1865-6 and 1867.

ONTARIO.

Crown Lands distributed.....	\$324,978.66
$\frac{3}{5}$ of undistributed.....	150,123.45
	<hr/>
Common School Lands (Share according to population).....	\$475,102.11
Grammar School Lands, Capital.....	60,398.30
Interest.....	
	<hr/>
U. C. Building Fund (Marriage Licenses).....	7,856.57
Municipalities Fund.....	24,292.68
Municipal Loan Fund.....	168,622.99
Law Society.....	186,456.67
Law fees not yet surrendered, Fee Fund.....	17,116.05
Consolidated Fund.....	
	<hr/>
	30,231.57
	81,819.04
	<hr/>
Payable by Dominion as above.....	\$1,021,664.41
	<hr/>
Or \$1,69 per head.....	1,333,380.80
	<hr/>
	\$2,355,045.21

QUEBEC.

Crown Lands distributed.....	\$159,819.65
$\frac{3}{5}$ of undistributed.....	75,061.72
	<hr/>
Common School Lands (Share according to population).....	\$284,881.37
Superior Education Fund, Capital.....	48,089.00
Interest.....	
Rent of Mack's Hotel.....	
	<hr/>
Municipalities Fund.....	733,33
Municipal Loan Fund.....	22,185.58
Building and Jury Fund.....	20,007.12
Court Houses.....	76,791.55
Law Fee Fund.....	27,033.27
Quebec Fire Loan.....	32,290.25
Marriage License Fund (not yet surrendered).....	86,466.96
Registration Fund (only one year).....	5,638.70
Interest on investments which pay their interest.....	2,699.81
Payable by Dominion as above.....	3,910.69
	<hr/>
Or \$1.62 per head.....	1,164.00
	<hr/>
	1,235,376.92
	<hr/>
	\$1,796,535.22

NOVA SCOTIA.

Crown Lands, Mines, &c. (average of $3\frac{1}{2}$ years).....	\$122,739.00
Marriage Licenses, (average of $2\frac{3}{4}$ years).....	4,233.07
	<hr/>
Payable by Dominion as above (Canada Currency \$324,685.60).....	\$126,972.07
	333,481.10
	<hr/>
Or in Canada Currency.....	\$460,453.17
	448,174.40
	<hr/>
Or \$1.36 per head	

NEW BRUNSWICK

Crown Lands, mines, &c.....	\$30,874.60
Export Duties.....	65,013.16
Marriage Licenses.....	4,830.85
	<hr/>
Payable by Dominion as above.....	100,718.61
	314,637.60
	<hr/>
Or \$1.65 per head.....	\$415,356.21

SCHEDE NO. 3.

Shewing estimated net Revenues from all sources, and distinguishing those which depend on Receipts from future Provincial taxation.

ONTARIO.

Payable by Dominion.....	\$1,333,380.45
Less interest on $\frac{5}{9}$ of \$10,000,000	277,777.77
	<hr/>
Crown Lands, School and Clergy Lands.....	\$1,055,602.68
	711,979.97
	<hr/>
Or \$1.26 per head of population.....	1,767,582.65
If the Municipal Loan Fund is included.....	186,456.67
	<hr/>
\$1.40 per head.....	\$1,954,039.32
The following should clearly not be included, being proceeds of special taxes :	
Marriage Licenses.....	\$24,292.68
Law fees.....	98,935.09
	<hr/>
	123,227.77
If included \$1.49 per head.....	\$2,077,267.09

QUEBEC.

Payable by Dominion.....	\$1,235,376.92
Less $\frac{4}{9}$ interest on \$10,000,000	222,222.22
	<hr/>
Crown Lands, School and Clergy.....	\$1,013,154.70
	328,327.07
	<hr/>
\$1.21 per head.....	\$1,341,481.77
If Municipal Loan Fund and Quebec Fire Loan.....	82,430.25
	<hr/>
Carried forward, \$1.28 per head.....	\$1,423,912.02

<i>Brought forward.....</i>	\$1,423,912.02
Proceeds of Special Taxes, Law fees.....	\$149,701.17
Marriage Licenses.....	2,699.81
	<hr/>
If included \$1.42 per head	\$152,400.98
	<hr/>
If included \$1.42 per head	\$1,576,313.00

NOVA SCOTIA.

Payable by Dominion.....	\$324,685.60
Interest on \$1,000,000.....	50,000.00
	<hr/>
Crown Lands \$122,739 equal to.....	\$274,685.60
	<hr/>
\$1.19 per head.....	\$119,465.00
Marriage Licenses if included.....	
	<hr/>
\$1.20 per head	\$394,150.60
	<hr/>
	4,120.20
	<hr/>
	\$398,270.80

NEW BRUNSWICK.

Payable by Dominion.....	\$314,637.60
Interest on \$854,203.....	42,710.00
	<hr/>
Crown Lands and Export Duties.....	\$271,927.60
	<hr/>
\$1.46 per head.....	95,887.76
If Marriage Licenses included, \$1.48 per head.....	
	<hr/>
	\$367,815.36
	<hr/>
	\$72,646.213

APPENDIX IV.

1. TABLE shewing the estimates of the Local Parliaments for the several Provinces of Expenditures during the year 1868.

	Population in 1861.	Annual Subsidies.	Civil Government and Legislation.	Public Works and Buildings.	Education.	Administration of Justice, Asylums, Reformatories, Hospitals and Charities.	Agriculture and Immigration.	To meet unforeseen Expenses.	TOTALS.
Ontario	1,396,091	\$ 1,196,872.80	\$ 24,476.00	\$ 235,972.00	\$ 332,665.00	\$ 400,867.13	\$ 66,450.00	\$ 20,000.00	\$ 1,303,424.13
Quebec	1,111,566	969,252.80	415,831.59	141,085.00	286,257.00	563,820.28	61,400.00	20,000.00	1,491,293.87
Nova Scotia	330,857	*324,685.60	88,320.00	*255,360.00	165,200.00	34,000.00	10,000.00	11,000.00	563,380.00
New Brunswick	252,047	*314,637.60	7,433.00	169,500.00	123,644.40	35,540.00	12,660.00	7,000.00	419,777.40

^a Including the temporary allowance for 10 years of \$63,000 per annum.

Proportions per head of the Population in 1861.

PROVINCES.	Municipal Expenses.	Public Works.	Education.	Administration of Justice.	TOTALS.
Ontario	\$ 497,823.00	\$ 3,030,403.00	\$ 1,577,582.80	\$ 387,301.00	\$ 5,493,109.80
Quebec	100,000.00	\$ 25,000.00	865,215.18	.....	1,790,215.18
Nova Scotia	28,000.00	7,000.00	231,000.00	103,000.00	369,000.00
New Brunswick	5,000.00	111,000.00	103,488.04	58,400.00	277,888.04
	<hr/> <hr/> 630,823.00	<hr/> <hr/> 3,973,403.00	<hr/> <hr/> 2,777,286.02	<hr/> <hr/> 548,701.00	<hr/> <hr/> 7,930,213.02

2. TABLE shewing the expenditures under Municipal Government during the year 1867.

PROVINCES.	Municipal Expenses.	Public Works.	Education.	Administration of Justice.	TOTALS.
Ontario	\$ 497,823.00	\$ 3,030,403.00	\$ 1,577,582.80	\$ 387,301.00	\$ 5,493,109.80
Quebec	100,000.00	\$ 25,000.00	865,215.18	.....	1,790,215.18
Nova Scotia	28,000.00	7,000.00	231,000.00	103,000.00	369,000.00
New Brunswick	5,000.00	111,000.00	103,488.04	58,400.00	277,888.04
	<hr/> <hr/> 630,823.00	<hr/> <hr/> 3,973,403.00	<hr/> <hr/> 2,777,286.02	<hr/> <hr/> 548,701.00	<hr/> <hr/> 7,930,213.02

Proportions per head of Populations in 1861.

Ontario	354	2.17	1.13	274	3,934
Quebec	9	744	74	.....	.....
Nova Scotia	83	2	3	31	1.112
New Brunswick	2	44	41	234	1.104

The figures under the head of "Education" in the preceding Table are derived from the latest Official Reports of the Superintendents of Education in the several Provinces, being for the year 1866, and apparently comprise the expenditures of all kinds, (excluding those for Universities and Incorporated Colleges), with the exception that in New Brunswick, the Superintendent states, in addition to the figures given, "there was a large but unreported cost for new school houses, repairs, furniture and apparatus;" and it is to be observed that a reduction is made in the figures for Quebec, because charges were included therein which are not embraced in the Returns from the other Provinces. Communications from Mr. McLelan and Dr. Tupper state the Municipal Expenditure for Education in the Province of Nova Scotia, for 1861, at \$355,000—an increase upon 1866 of \$124,000; it is hardly likely that the same expenditures in the other Provinces had increased in anything like a similar ratio, and assuming that they remained the same as in 1866, the comparative rate per head for Nova Scotia would be \$1.07 instead of 70 cents as stated in the Table.

The other particulars in Table No. 2, are derived from the following sources :—as regards Ontario, from the Official Returns from that Province for 1867, with such alterations in the classification as the headings require, and it may be stated that the item for Public Works comprehends the interest upon Debentures as well as Debentures redeemed; as regards Quebec, from similar returns, supplemented by the best attainable estimates for correcting imperfections therein; as regards Nova Scotia, from information furnished by Mr. Purdy, a Member of its Legislature; and as regards New-Brunswick, from information furnished by Mr. Beckwith, the Treasurer of that Province. But the value of the Table depends altogether upon the accuracy of the data upon which it is constructed, and it should only be regarded as an approximation to the actual facts.

3. TABLE shewing the aggregate rate per head (of the populations in 1861) of the Provincial Expenditures under Local Parliamentary and Municipal authority, and the rate per head required to be raised in each Province, over and above the Subsidy paid by Canada.

ONTARIO.				QUEBEC.				NOVA SCOTIA.				NEW BRUNSWICK.				
Parlia- mentary.	Muni- cipal.	Total.	Parlia- mentary.	Muni- cipal.	Total.	Parlia- mentary.	Muni- cipal.	Total.	Parlia- mentary.	Muni- cipal.	Total.	Parlia- mentary.	Muni- cipal.	Total.		
Government and Legislation	172	351	524	373	9	462	263	351	281	674	281	304	44	1	114	
Public Works	17	2	34	123	741	87	771	2	794	1	192	49	41	41	90	
Education	233	1	13	1	363	1	493	70	1	192	14	14	14	231	374	
Justice	283	272	555	253	1	51	101	31	411	3	141	31	23	23	52	
Agriculture	43	1	44	562	52	51	3	31	3	31	2	31	2	2	2	
Unforeseen Expenses	12	—	12	12	12	12	12	12	12	12	12	12	12	12	12	
Total	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Deducting Annual Subsidy	—	—	—	4	863	2	954	2	813	—	—	—	—	2	764	
Leaves to be provided from Local taxation or contributions	—	—	—	4	852	2	861	—	—	—	—	—	—	1	25	
			4	01	—	—	2	09	—	—	—	1	833	—	1	514

Assuming that an addition of 37 cents has to be made to the municipal cost of Education in Nova Scotia, as stated under Table 2, the Totals to be provided from local sources will then be

Nova Scotia. 2.20 $\frac{1}{2}$
New Brunswick. 1.51 $\frac{1}{2}$

10

JOHN SIMPSON,
Asst. Auditor.

 FINAL CORRESPONDENCE.

HALIFAX, December 4, 1868.

SIR,—I have had the honor to receive the printed papers forwarded to me by the last mail, and I have read with deep interest the elaborate reports prepared by yourself and Mr. Langton. They appear to me to be conceived and expressed in a candid and judicial spirit.

You are aware of the line taken here by the Members of the Local Government. As they are trammelled by their action prior to the receipt by me of Sir John A. Macdonald's letter of the 6th October, and by their subsequent condemnation of the correspondence in which we are engaged, it would be hopeless to expect from any Member of the Government any aid in the rather difficult task of adjusting our financial relations with the Dominion on an equitable and satisfactory basis. It is therefore fortunate that I can call to my assistance a gentleman, who is not unknown at the Seat of Government, and in whose integrity and financial skill the people of Nova Scotia have entire confidence. A. W. McLelan, Esq., M. P., for Colchester, has given much time to the investigation of all the branches of the general subject covered by your reports. I have sent them to him. When they have been digested, we will meet you either at Portland or elsewhere, and endeavour in a free and full discussion to arrive at sound conclusions. I am afraid that neither of us can leave home till after New Year, but when we are ready, the time and place of meeting can be arranged by telegraph.

In the meantime permit me to say, that having discussed the whole subject with Mr. McLelan, we both concur in the opinion, that nothing that would be unfair to the other Provinces should be asked of the Dominion Government. We seek only justice to our Province, and are quite satisfied that any fair and equitable reconsideration of the financial arrangements made in London, will prove that the exceptions taken to those arrangements by the people of Nova Scotia can be sustained.

I have the honor to be, Sir,
Your obedient servant,

JOSEPH HOWE.

The Hon. John Rose,
Minister of Finance.

OTTAWA, January 20th, 1869.

SIR,—The undersigned having given careful and anxious consideration to the Reports submitted to them, and having discussed with yourself and with other Members of the Cabinet, the important questions which those Reports embrace, deem it their duty to state, with as much precision as possible, the general principles which they conceive ought to govern any satisfactory re-adjustment of the financial relations between the Province of Nova Scotia and the Dominion of Canada.

1.—DEBTS AND ASSETS.

In the adjustment of debts, regard should be had to the population, as shown by Census, and to the amount of property thrown into common stock. When \$8,000,000 were assigned as the recognized debt of Nova Scotia in 1864, the actual expenditure did not exceed \$5,000,000, representing property which might have been considered a fair offset to the Assets held by Canada; and had the Provincial Government funded the difference, instead of expending it, they might have applied the interest to local services, now left without any adequate provision. But they expended more than the whole amount in the construction of the Railway to Pictou, which becomes the absolute property of the Dominion, and in

promoting the Windsor and Annapolis, which is properly an extension of and will be an important feeder to all the lines that the Dominion has assumed. These works cost more than \$3,000,000, exclusive of the Right of Way. They are of local advantage ; but, as the other Provinces, since the Conference, have made no large expenditures on works which become Dominion property, it would be unfair to charge the whole cost of ours to the Province, and it would be but just that \$2,000,000, or two-thirds of the whole expenditure, should be carried to our credit by the Dominion. A result, equivalent to this, would be obtained by another process, equally legitimate. The Auditor General estimates at \$46,667,401, all the properties which Canada threw into common stock, as an offset to our Railways, which, including the recent expenditures, cost \$7,395,000, besides the Right of Way paid for by the Counties. If, with this amount of property, the Canadas were taken into the partnership with \$62,500,000 of debt, Nova Scotia would be entitled to enter with a debt of \$9,930,874.

2.—PUBLIC BUILDINGS.

In addition to the sum expended upon Railroads, after the adjustment of existing debts and assets, nearly a quarter of a million of dollars was expended by the Provincial Government upon a new public building in the city of Halifax, intended to accommodate departments, the control of which, by the British North America Act, is now divided between the Local and General Governments. If it be assumed, that under the Act, that portion of the property created by being contracted for just prior to the Conference, although the expenditure was subsequently made prior to the adjustment of the debts and assets, reverted to the Dominion, then we would urge that Nova Scotia is entitled to claim whatever sum was paid subsequent to that adjustment.

If, however, the full amount be not allowed, on the ground that a contract, signed just before the Conference, constituted a Provincial liability, we would remind you that that contract was cancelled, by failure on the part of the contractors, and that the building was completed last year under later arrangements.

3.—PROVINCE NOTES.

Nova Scotia, for nearly half a century, has, from time to time, issued Province Notes, which formed a cheap circulation, costing no interest, as they were received in payment of duties at all the Revenue offices, and redeemed out of such specie as flowed into the Treasury, or in Bank paper equivalent to gold. At the time of the Union, this circulation amounted to \$622,000, on which sum the Dominion would have to pay no interest, and we would therefore urge that on it none should be charged. It is fair also to assume, that in the lapse of half a century, a considerable proportion of this paper has been burnt at fires, lost at sea, or been otherwise destroyed, and it is but just that the Dominion, on assuming the circulation, should make to Nova Scotia a fair allowance for that proportion which it will never be called upon to redeem.

4.—SAVINGS BANK.

The Dominion, under the Law, assumes the Deposits in our Provincial Savings Bank, which bear but 4 per cent. of interest, and will, henceforward, enjoy whatever benefit may be derived from obtaining money through this source, at that low rate of interest. But it is obvious that it should allow to the Province, either in the form of a suspense account, or in a round sum, sufficient to cover the amount which the experience of our own or of other institutions renders it fair to assume, will never be called for by Depositors, prior to the transfer.

5.—STORES.

In the Board of Works and Railway Departments, there was deposited, at the time of the Union, a considerable amount of stores. If the other Provinces have property of this description, which, to some extent, would offset our own, we assume, that under the Act, their claims and ours will be investigated and adjusted, as matters of account between your Department and the Finance Ministers of the Provinces.

6.—DIFFERENCE IN CURRENCY.

As the Debts of Canada and New Brunswick are calculated in one currency, and ours in another, we claim that they should, in any fair general adjustment, be brought to the same basis, as the revenue is now collected in Nova Scotia in Canadian Currency.

7.—INCREASED TAXATION.

The claims, above enumerated, are so evident and equitable, that calculation, rather than argument, is required to sustain them. It is not so easy to determine the amount which Nova Scotia should receive in consideration of the increased taxation to which she has been subjected. It is apparent, however, that at no period of her history has she been embarrassed for want of money. That, if her revenues fell off, as they did, for a single year, at the commencement of the American civil war, light additional taxation soon filled her treasury; and that, though in the two or three years just preceding Confederation, her resources had been strained by a somewhat too rapid extension of her railways, her credit was so good, at home and abroad, and her tariff so low, that she could, by a slight increase of taxation, have met her liabilities and provided for all services, general and local.*

From 1864, when the Quebec Scheme was arranged, to the 30th June, 1868, a period of three years and three quarters, the receipts in Nova Scotia, from sources of Revenue now transferred to the Dominion, were sufficient, under a ten per cent tariff on enumerated articles, to meet the cost of services now under the charge of the General Government, and to have paid the subsidies, leaving a surplus of \$328,565. If then, as has been asserted, we should have required to increase our import duties, irrespective of Confederation, the money would mainly have been required for local services; and, when heavy additions have been made to our specific and ad valorem duties, when the rate of discount at the banks has been increased, and stamp and newspaper taxes have been imposed, it is obviously unfair to leave the local services without adequate provision. That the British America Act does this is easily determined by reference to the Nova Scotia Estimate for 1868 and 1869.

The direct returns to the Dominion Treasury, from this increase of taxation, can only be correctly ascertained in future years; but the increase must be large, and the advantages secured to your manufacturers ought not to be overlooked. The average import of dutiable goods into Nova Scotia, for the four years preceding Confederation, amounted to \$23.50 per head of her population, Canada imported but \$12.25. This difference annually amounting, on our population, to \$3,722,141, is a large sum upon which to collect duties, over and above the ordinary consumption of Canada, and warrants us in claiming, irrespective of the moneys due to Nova Scotia, as stated under the preceding heads, a liberal provision for her local services.

Should your Manufacturers annually supply our people with goods to the extent of this \$3,722,141, even although those goods come in free of duty, it is obvious that, if they cannot be furnished as low as by the Manufacturers of Great Britain and the United States, the Nova Scotians must pay higher prices on this consumption.

We have endeavored to state the claims of Nova Scotia thus fairly and succinctly. The facts on which they rest, apart altogether from political considerations, challenge inquiry, and will, we have no doubt, induce the Government to honorably redeem the pledge conveyed in the letter addressed by Sir John A. Macdonald to Mr. Howe, on the 6th October last.

We have the honor to be,

Sir,

Your very obedient servants,

(Signed)

JOSEPH HOWE,

A. W. MCLELAN.

The Hon. John Rose,
Minister of Finance.

* NOTE.—It has been said that some of her bonds were unsaleable in England, prior to the passage of the Act of Union. This is a mistake. Those Bonds, paid to Railway Contractors, reached the London market in an unusual and irregular manner. Had they been forwarded through the proper channel to the London agents of the Province, they would have been promptly sold.

[Copy]

OTTAWA, 26th January, 1869.

GENTLEMEN,—Since I had the honor to receive your communication of the 20th instant, the subject of it has, as you are aware, continued to engage the serious attention of the Government.

They have not failed to give the fullest consideration both to the propositions contained in your letter, and to the further explanations which during our discussions in the intermediate period have been from time to time offered by you.

I have now the honor to apprise you of the conclusions at which the Government have arrived, and which are such as they believe will commend themselves to the approval of Parliament.

You will find them fully set forth in the Minute of Council, which yesterday received His Excellency's approval, and of which I am authorized to transmit you a copy.

I can but add on my own part the expression of my sincere hope that they may be satisfactory to the people whose interests you have so untiringly advocated.

I have &c.,

JOHN ROSE,
Minister of Finance.

The Hon. J. Howe, M. P.,
A. McLelan, Esq., M. P.,
Russell House, Ottawa.

Copy of a Report of a Committee of the Honorable the Privy Council, approved by His Excellency the Governor General in Council on the 25th January, 1869.

The Committee have given their attentive consideration to the annexed Report of the Honorable the Minister of Finance, having reference to and submitting certain correspondence that has taken place between him and Messrs. Howe and McLelan, together with certain Reports, on the subject of the readjustment of the financial conditions attending the admission of Nova Scotia into the Union; and concurring in the suggestions of the Minister of Finance, they respectfully advise that a measure be submitted to Parliament at its next session providing—

1st. That the debt of Nova Scotia, on entering the Union, be placed at \$9,186,756, and that that Province be relieved from any charge of interest, unless her debt exceed that sum; and—

2nd. That for ten years, from the 1st July, 1867, an annual subsidy of \$82,698 be paid to that Province.

The Committee further report their concurrence in the recommendation of the Finance Minister that Nova Scotia be debited, after the completion of the Province Building, with interest on the cost of that building, until it shall have been placed at the disposal of the Dominion.

(Certified)

W.M. H. LEE, C. P. C.

FINANCE DEPARTMENT,

OTTAWA, January, 24th, 1869.

The undersigned has the honor to bring under the consideration of His Excellency the Governor General in Council, the Confidential Report made in the month of November last, on the affairs of Nova Scotia, and to state the result of the communications which with the assent of the Council have since taken place.

In that Report the undersigned stated his opinion as to the result of his enquiry into the affairs of Nova Scotia, as follows :

1. That the principle on which the debts were arranged by the Union Act operates with some unfairness to Nova Scotia.
2. That in the division of the property, local assets and revenues, or because the assets

possessed by her were not of a character to be available, Nova Scotia is less favorably situated than the other Provinces in respect of Local Revenues.

3. That the increase of Customs presses more directly on Nova Scotia than the other Provinces, but this apparent increase and the consequent pressure, it is believed, will be mitigated every year, as goods which she formerly imported from abroad, and which were chargeable with duty, are produced in other portions of the Dominion and will now be available to her for consumption free of duty.

4. That she must have raised about \$400,000 annually by way of additional taxation if she had remained out of the Union.

5. That the amount raised by the Dominion from Revenue from Customs and otherwise is about adequate, if the results of last year continue in future the same, to meet all the current expenditure the Dominion is called on to make on her account, but less by \$100,563, if Nova Scotia is to be charged a *per Capita* contribution to the cost of the Civil Government and Legislation of the Dominion.

6. That the Local Sources of Revenue at present possessed by Nova Scotia are inadequate to carry on the Services devolving on the Province.

The Report in question having been communicated to the Hon. Joseph Howe, various meetings subsequently took place with that gentleman and Mr. McLelan, at which the difficulties were fully discussed in a frank and temperate spirit. These gentlemen from the outset disclaimed any desire to seek Financial concessions which were not warranted on grounds of strict justice; or any modification of the original terms of Union which would place Nova Scotia otherwise than on a footing of equality with the rest of the Dominion, or beyond what would enable that Province to meet the expenditure indispensably necessary to carry on its Local affairs, without having recourse to a system of direct taxation, new to its inhabitants, and to which none of the other Provinces of the Dominion required to subject its people.

The numerous objections which have from time to time been urged in the interest of Nova Scotia were fully reviewed and the result has been a limitation of the points of controversy to those stated in the accompanying letter from Messrs. Howe and McLelan, which are still strongly pressed and which may be succinctly stated to be:

1. That a just apportionment of the debts of the several Provinces, based on the amount of assets which each contributed, would entitle Nova Scotia to enter the Union with a debt of \$9,980,874.

2. That an allowance should be made for the new Province Building erected since the date of the Quebec Conference at a cost stated to be nearly \$250,000.

3. That an allowance should be made for the Provincial Note circulation of Nova Scotia amounting to \$622,458, both on the ground that it bears no interest and that a portion of the circulation may fairly be considered to have been lost, and that it will not be presented for redemption.

4. That a deduction should also be made from the Savings Bank deposits, amounting to about \$657,610.04, of such an amount as it may fairly be supposed will never be called for by Depositors.

5. That an allowance should be made to Nova Scotia for stores on hand at the time of the Union.

6. That the debt of Nova Scotia being in a different currency should be brought to the same basis as that of the other Provinces.

7. That Nova Scotia being subjected to increased taxation under the Union, to an extent which it is contended would have sufficed to have met the interest on her increased debt, and also made adequate provision for her local expenditure had no Union taken place, is entitled to ask that these services shall be provided for by a grant from the Dominion.

After giving the fullest and most anxious consideration to the various points which were raised, and to the additional information furnished; the undersigned sees no reason to depart from the general conclusions enumerated in his former Report. But he has been enabled to estimate the practical extent of the inequalities to which he adverted, and to form an opinion as to the modifications which would be required to meet the exceptional circumstances in which Nova Scotia stands, and to place her under the Union in a position of Financial equality with the other Provinces.

It may be convenient in the first instance, however, to consider *seriatim* the seven heads of claim preferred by Mr. Howe and Mr. McLelan.

1. That the assets contributed by Nova Scotia would entitle her to enter the Union with a debt of \$9,980,874.

It is undoubtedly true that at the time of the Quebec Conference, in October, 1864, the debt of Nova Scotia was only about \$5,000,000.

Between that time and the date of the Union, in 1867, the Province had expended in money or contracted engagements, which the Dominion had to meet [but with which Nova Scotia is charged], that have swelled her debt [subject to certain adjustments], to \$9,300,000.

That outlay was mainly on works which became the direct property of the Dominion, and among which may be enumerated the following:

- A. Outlay on Truro and Pictou Railway.
- B. Province Building.
- C. St. Peter's Canal.

D. On Halifax and Truro Railway—four works on which an outlay amounting in the aggregate to about \$2,600,000, took place in the interval; and, beside these, about \$1,100,000 has been expended, or is in course of payment, for the Windsor and Annapolis Railway, which will not become the property of the Dominion, but, it is urged, will form an important feeder to the Dominion lines.

It is also urged that of the rest of her debt, amounting to about \$5,500,000, the principal part had been previously incurred on the railways from Halifax to Windsor and to Truro, which are also assigned by the Act of Union to the Dominion as its property, and that this sum is exclusive of the right of way, which, by the Legislation of Nova Scotia, was furnished at the expense of the Localities; whereas the land for the other parts of the Intercolonial Railway is being provided at the Public Charge.

It was therefore strongly pressed, as is now repeated in the accompanying letter, that a comparison should be instituted of the value of the entire property which each Province brought into the Union, and that it should have a corresponding claim on the Dominion Exchequer. Whatever justice there may be in principle to this proposal, such a comparison obviously involves many particulars, which would make it difficult and even impossible to arrive practically at an equitable solution.

The advantage of particular works to the localities as compared with their advantage to the Dominion could hardly be estimated. The geographical situation might enable one Province to contribute at a smaller cost, an asset more directly productive in itself, but which might still be dependent for that productiveness on another more costly, and less directly remunerative, constructed by another Province.

The question whether one Province had not procured these works on better terms by the adoption of a different system than the others would arise. The prospective productiveness, and whether that productiveness might not depend on the development of the natural resources of the several Provinces at their own cost, and various other elements, all equally conjectural, would likewise have to be considered. The undersigned therefore submits that it could not result in any practical good, but on the contrary would lead to embarrassing comparisons with the other Provinces to endeavour to adjust the claims of Nova Scotia on any such principle.

The undoubted facts to which reference has been made, give, it will be conceded, a fair claim to consideration, but it is believed that the relief may be given in a way less calculated to raise complicated issues, and which, under circumstances believed to be parallel, has already been accepted by Parliament as an equitable arrangement in the case of one of the other Provinces.

2—NEW PROVINCE BUILDINGS.

It would seem at variance with the provisions of the Union Act to make any special allowance on account of the Province Building at Halifax. It is true that this building, intended for services, now under Dominion control, has been erected since the Quebec Conference, and has never been used by the Province of Nova Scotia, and that its cost goes to make up the total debt of Nova Scotia. But it is, nevertheless, Dominion property, as much as the Railways—portions of which have been constructed in the same interval—and it, therefore stands on the same footing; except, perhaps, as to any outlay since July, 1867, which may form the subject of equitable adjustment.

3 AND 4—PROVINCIAL NOTE CIRCULATION AND SAVINGS BANK DEPOSITS.

The points advanced touching the special character of these items, composing part of the debt of Nova Scotia, and as entitling her to be relieved from any charge of interest in respect, merit fair consideration.

It is stated that the Provincial Notes of Nova Scotia in circulation, amounting to \$622,458, bear no interest at all, and that the Dominion ought not, therefore, to debit Nova Scotia with a charge for interest which is not paid, and that besides some of the notes have been issued 40 years ago, and will never be presented for redemption.

Then as regards the Savings Bank deposits, amounting to \$657,610 $\frac{4}{100}$, it was urged that they bear only 4 per cent. interest, and that a considerable per centage of the gross deposits would never be demanded; that, therefore, the Dominion ought not to charge more interest than it paid, and should absolutely reduce the capital of these two items of the Provincial debt.

The undersigned cannot wholly acquiesce in the view of the case as urged by Nova Scotia, but after a careful examination into the state of these accounts, he believes that a moderate per centage, not exceeding 10 per cent. of each, may, with propriety, be placed to a suspense account; that on this per centage no interest should be charged until the Dominion is called on for it by the holders or depositors.

The fact that the Provincial Notes bear no interest, if it stood alone, might be a good ground for exempting Nova Scotia from a charge of interest on any sum beyond such per centage of the circulation as it was prudent to keep in bullion.

But a consideration of this question obviously involves a comparison of the rate of interest which the Dominion is called on to pay on the total liabilities of the several Provinces. Canada had a considerable circulation of Provincial Notes at the time of the Union which also bore no interest, and a large portion of her debts bore only five per cent. interest.

This comparison shows that the Dominion has to pay 5 $\frac{4}{100}$ ths per cent. of interest on the aggregate Nova Scotia debt, and but 5 $\frac{12}{100}$ ths per cent. on that of the former Province of Canada.

Under the circumstances there would be an obvious inequality were Nova Scotia to be relieved from interest on this item of the debt, while that interest was made a charge against the late Province of Canada.

5—STORES IN HAND.

It would be practically impossible to make an inventory of the whole of the stores on hand in the several Provinces on the 30th of June, 1867, and besides the comparison, even if the figures were ascertained, would, as to any practical results, be attended with the same difficulties as applied to a comparison of the entire assets of the several Provinces; and apart from this, the undersigned believes that the comparison would show a balance against Nova Scotia.

Canada had a large amount of Military Stores on hand, and her Lighthouse and Steamship Stores are believed to have been as extensive comparatively, as those of Nova Scotia. New Brunswick also had a considerable amount of Railway stores on hand, which became the property of the Dominion.

6. THAT THE DEBT SHOULD BE CALCULATED IN A UNIFORM CURRENCY.

It is believed that the proposition to pay the subsidy and regulate the interest on the basis claimed is an equitable one.

Having thus adverted to the first six points enumerated in the accompanying letter; the discussion of the seventh involves a consideration of the whole case of Nova Scotia.

Sufficient time has not elapsed to permit any reliable estimate to be formed of the extent, (if any), by which the burdens of Nova Scotia are increased by Dominion legislation.

The experience of the six months ending in December last confirms the impression conveyed in the former Report that the alleged increase in Customs is no criterion by which to estimate the actual increase of taxation:

It is believed that it really falls short of the nominal percentage, and that the pressure of any augmented burdens, whatever these may really be, will be further mitigated every year.

The undersigned is not insensible to the arguments which were verbally pressed, that the two smaller Provinces are in some respects placed at a disadvantage as compared with the larger ones, that the cost of their Local Governments must necessarily be more per head; that the resources of Nova Scotia are as yet comparatively undeveloped; that the coal trade, on which she depends for a considerable portion of her Local Revenue, is in a condition of unusual depression; and that the physical character of the Country entails on her a large expenditure to secure the necessary means of communication than the other Provinces have to meet.

It may be urged that this expenditure should be met by direct taxation. It appears, however, that though no sum is levied in money for this service the people are compelled to contribute a considerable sum in the shape of work—a fact of which the undersigned was not aware at the date of his former Report.

It is impossible to disregard the fact that the system of direct money contributions for Roads and Bridges has never been pursued in Nova Scotia, but that these local works have been carried on hitherto mainly by direct grants from the Public Exchequer, and that the too sudden introduction of a new system of taxation at this moment, or the stoppage of the accustomed grant, would alike aggravate the existing discontent.

It will thus be seen that whilst some of the points urged on behalf of Nova Scotia cannot be controverted in fact, and that therefore as a consequence she may justly claim some modification in the existing Financial arrangements, there is much practical difficulty in determining the measure of these concessions, and the best means of their substantial accomplishment.

The exceptional position of New Brunswick was considered in the arrangements which preceded the Union, and has been acknowledged in that provision of the Act which accords to her for the limited period of ten years a special grant of \$63,000 per annum, pending the increase of her population and the material development of her local resources.

The justice of this provision has not (so far as the undersigned is aware) been called in question; and he believes that the same state of facts which led to the grant to New Brunswick exists in the case of Nova Scotia.

In view of these considerations the undersigned is of opinion that the most equitable solution of the present difficulty would be to submit to the favorable consideration of Parliament the propriety of placing the Province of Nova Scotia, as far as practicable, on the same footing as the Province of New Brunswick, and to allow it to come into the Union with the same debt per head of the population, as established by the last census, on the terms stated in the British North America Act, and to pay it, for a limited period of Ten years, an additional annual grant at the same rate per head of the population as is given to New Brunswick.

Should this principle commend itself to Your Excellency, the result would be as stated by the Auditor General in the annexed return.

1. That Nova Scotia would be entitled to enter the Union with a debt of \$9,188,756, and to be relieved from any charge of interest, unless her debt exceed that sum.

2. That she would receive for ten years from the 1st July, 1867, a subsidy of \$82,693 annually.

As respects the cost of the Province Building, it appears but reasonable that as the Dominion has not yet obtained possession of it, Nova Scotia should be debited after this time with interest on the amount until it is put at the disposal of the Dominion.

The undersigned would add in conclusion that he has carefully analysed the estimated Local expenditure of Nova Scotia for the years 1868 and 1869, in conjunction with the gentlemen representing that Province, and he believes that if the arrangements proposed are carried out, Nova Scotia will have sufficient means at her disposal to meet those services which devolve upon her by the terms of the Union Act, provided they are placed on a moderate but efficient footing. If on the contrary the Province has to depend on the provision made by the existing terms of the Union Act, no inconsiderable deficiency must be met by the imposition of direct taxation.

JOHN ROSE,
Minister of Finance.

MEMORANDUM FROM MINISTER OF FINANCE.

OTTAWA, January, 1869.

The Auditor General will please report :

Ques. 1. With what amount of debt would Nova Scotia be entitled to enter the Union, supposing the same debt per head of the population as ascertained by the last Census was assigned to her as to New Brunswick ?

Ans. \$9,188,756 Canada Currency.

Ques. 2. What sum would be equivalent to the \$63,000 given to New Brunswick for ten years, assuming that the same rate per head is given to the population of Nova Scotia ?

Ans. \$82,698 Canada Currency.

Ques. What was the debt of Nova Scotia in October, 1864 ?

Ans. \$4,846,145, September, 1864.

And what is the present ascertained debt of Nova Scotia ?

Ans. \$9,288,121 now, including our liability to the Contractors Windsor and Annapolis Railway, Nova Scotia Currency, equal to \$9,040,439 Canada Currency.

Ques. 4. What has been the outlay since October, 1864, charged to Nova Scotia on the following works ?

A. Truro and Pictou Railway.

Ans. \$2,247,834.29 Nova Scotia Currency.

B. Province Building ?

Ans. \$220,000, estimated cost, Nova Scotia Currency.

C. St. Peter's Canal ?

Ans. \$124,447.70, Nova Scotia Currency.

D. Halifax and Truro Railway ?

Ans. \$82,007.95, Nova Scotia Currency.—\$2,674,289.94, Nova Scotia Currency, equal to \$2,602,975.57, Canada Currency.

Ques. 5. What is the average per centage of interest payable on the debt of Canada at the Union ?

Ans. In Canada, $5 \frac{3}{100}$ per cent, assuming the total debt to be \$72,228,258.

Ques. And that of Nova Scotia at the same date ?

Ans. In Nova Scotia, $5 \frac{3}{100}$, as it stood June 30, 1867, $5 \frac{4}{100}$ as now estimated.

(Copy.)

OTTAWA, January, 26, 1869.

SIR,—We have had the honor to receive your letter of this day's date, enclosing your Report to His Excellency the Governor-General, and the Minute of Council thereupon. These papers close the negotiations opened by Sir John A. Macdonald's letter of the 6th of October.

The decision of the Government upon the points raised in our correspondence, as discussed at Portland and in Ottawa, is, on the whole, satisfactory to us, and will, we believe, be regarded in Nova Scotia as evidence of a very sincere desire on the part of the General Government to meet the just expectations and provide for the local services of the Province.

Permit us to express our sense of the very fair and judicial spirit in which both yourself and the Auditor General have conducted this intricate and delicate negotiation, and for the courtesy which at every stage of it we have received at your hands.

We have, &c.,

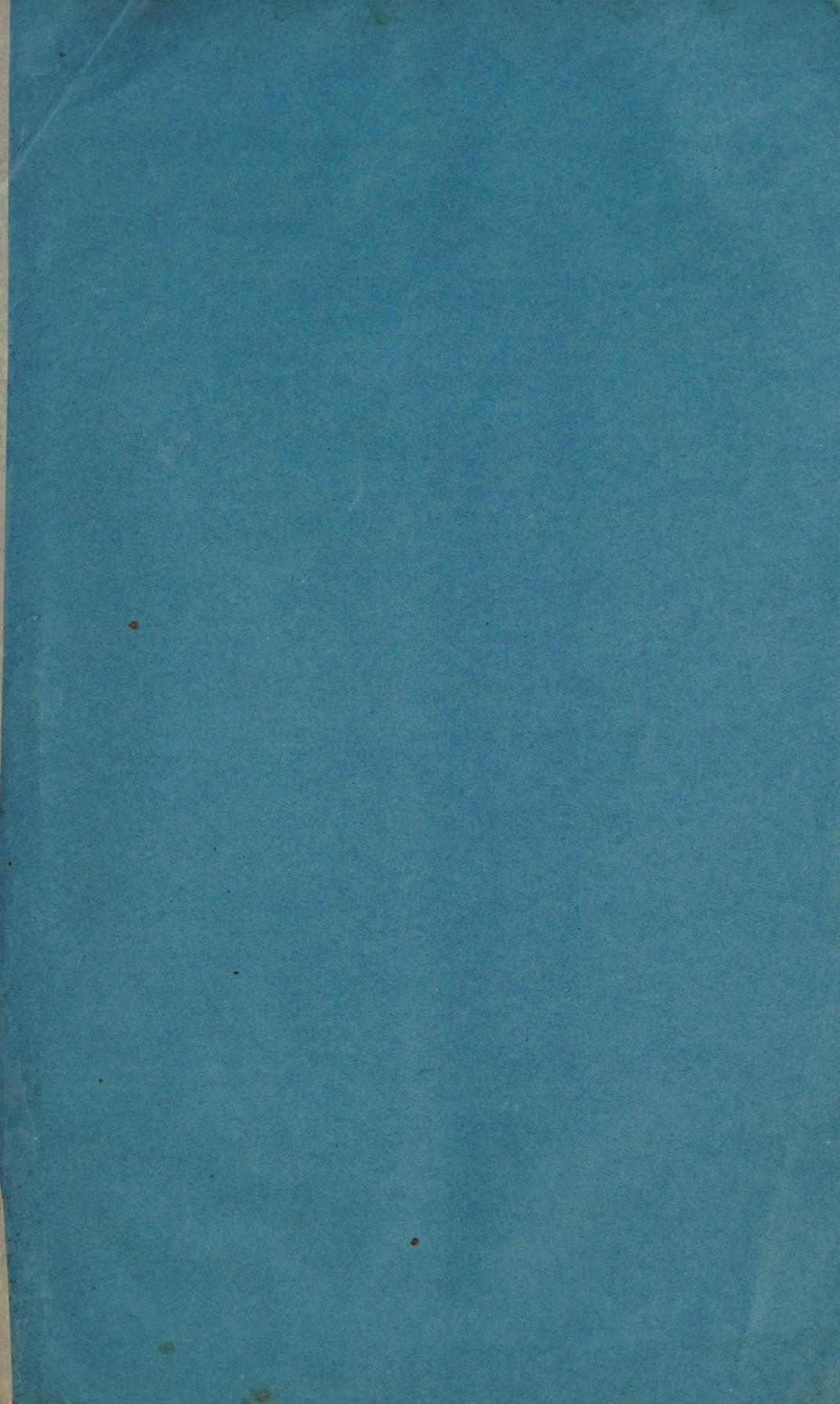
(Signed,) *

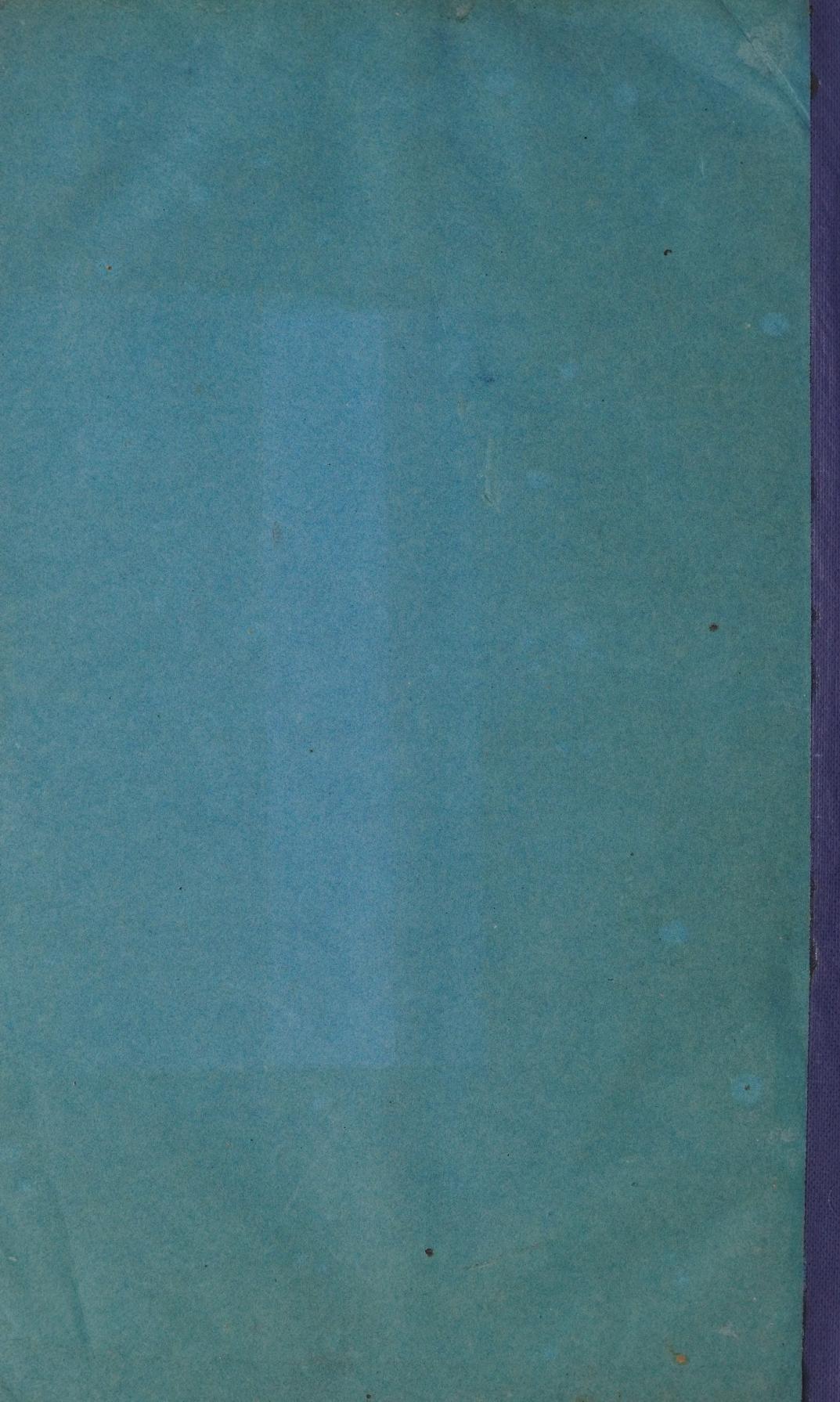
JOSEPH HOWE.

A. W. McLELAN.

The Hon. John Rose,
Minister of Finance.







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